# TAKING STOCK OF MONETARY REGIONALISM IN EAST ASIA: A GLASS HALF-FULL OR HALF-EMPTY?

**Youngwon Cho**
*St. Francis Xavier University*

## *Abstract*

Since the turn of the new century, East Asian countries have taken a series of important steps to launch and strengthen institutional mechanisms of monetary and financial cooperation to enhance the region's resilience to financial instability. Central to these efforts have been the Chiang Mai Initiative (CMI) and its recent multilateralization, a self-managed reserve pool designed to serve as a vehicle for providing regional liquidity support. Despite the significance of these developments, however, progress toward a common framework of monetary cooperation has been slow, its institutionalization shallow, and its prospects uncertain. Beyond a general consensus on the need for greater cooperation, regional actors remain deeply ambivalent toward the extent and depth of institutionalization. This article provides a critical assessment of the progress made so far, the obstacles that remain, and the prospects for the emergence of a more fully institutionalized framework of monetary cooperation in East Asia. I argue that while the CMI and its multilateralization represent a notable break from the past, fundamental political cleavages surrounding its direction are yet to be resolved, and as a result monetary regionalism in East Asia still remains more of a glass half-empty than half-full.

Key Words: East Asian regionalism; Chiang Mai Initiative; CMI multilateralization; financial regionalism

Earlier studies of regionalism in East Asia, especially those taking a comparative approach, almost always entailed some discussion of the common clich?s associated with the region. Among them were the characterization of regionalism in East Asia as a primarily market-driven phenomenon, the consequent shallowness of its institutionalization and the stunted extent of its multilateralization, and the absence of clear political leadership and trust that make it a daunting task for the region to overcome these obstacles (see Stubbs 1995; Katzenstein 1997; Haggard 1997; Rozman 2005). In contrast to these earlier views that tended to put more emphasis on the limits of East Asian regionalism, recent scholarship sheds a more sanguine light on the progress East Asia has made toward regional cooperation, with some justification: there has been a flurry of institution-building activities since the turn of the new century that has led to an unprecedented level of regional cooperation in East Asia (see Stubbs 2002; Bisley 2007/2008; Frost 2008; Dent 2008; ADB 2008; Chey 2009; Green and Gill 2009).

For the optimistic proponents of East Asian regionalism, the fact that the region has made not-so-negligible progress toward more formal and institutionalized cooperation is perhaps not that surprising. What may surprise some, however, is where this progress has been made the most. Whereas 15 years ago, most discussion of East Asian regionalism revolved around the rapidly growing intraregional trade and investment that were giving rise to regional networks of production, these are not the areas where multilateral institutionalization has unfolded recently. Rather, it is in the monetary and financial affairs that East Asian countries have made the most tangible progress in terms of both the relative depth of institutionalization and extent of multilateralization. In matters of trade and cross-border investment, cooperation in the region has been pursued primarily through a patchwork of bilateral and sub-regional arrangements without any overarching multilateral framework. This is a rather unusual departure from regionalism elsewhere, in that the emergence of an institutionalized regional trading and investment arrangement typically precede institutionalization in monetary and financial cooperation. East Asia has been sidestepping this, endorsing a "noodle bowl" of sub-regional and bilateral trade and investment arrangements while pushing harder to ground monetary and financial cooperation in a firmer, more encompassing institutional framework (Baldwin 2007; Solis and Katada 2007; ADB 2008, ch. 3).

The Chiang Mai Initiative (CMI), unveiled in May 2000 at the ASEAN Plus Three (APT) Finance Ministers' Meeting in Thailand, has been the key vehicle through which East Asia has been building a more institutionalized framework of regional cooperation in monetary and financial affairs.[1] Initially created as a series of bilateral swap agreements (BSAs) among the central banks of the APT, the CMI has subsequently expanded both in terms of the amount of resources disposable through it and the scope of its activities. In particular, with the much-vaunted multilateralization coming into effect in 2010, the CMI has been transformed from a simple network of BSAs into a "self-managed reserve pooling" arrangement governed with a single contractual agreement and accompanied by a number of new provisions designed to strengthen its capacity. Supporters have hailed CMI multilateralization (CMIM) as a milestone event, taking the region one step closer to resurrecting the still-born Asian Monetary Fund (AMF) proposed by Japan and shot down by the United States and China during the Asian financial crisis (AFC), and perhaps even opening up the possibility of eventually pushing forward to the final frontier: a regional monetary union.[2]

Exploring the state of monetary cooperation in East Asia, this article examines whether such an optimistic assessment is merited,

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1 The other major initiative is the Asian Bond Markets Initiative (ABMI), launched in 2003 to foster the growth of regional bond markets to lessen the reliance of East Asian countries on external bank loans. Progress on the ABMI has been severely limited though, more so than the CMI. See Rethel (2010).

2 See, for instance, Kawai (2010). For an optimistic assessment of the CMI, see also Park (2003), Sohn (2007), and Lee (2009). On regional monetary union, see Lee, Park, and Shin (2003), Aminian (2004), and Kim (2007).

and finds East Asian monetary regionalism more of a glass half-empty than half-full. While the recent multilateralization of the CMI does take the region one step closer to the AMF, the distance between CMIM and the AMF–to say nothing about a common currency–remains far apart and narrowing the gap will require a giant leap forward, a leap of faith over a deep and wide political crevice that no regional actor is ready to make. As it stands, CMIM does not give its participants what they are craving for: a credible regional source of temporary liquidity relief in the event of destabilizing shocks in the capital account. This comes without the onerous and humiliating strings that were attached to the US-dominated IMF bailouts in 1997. Moving CMIM toward a bona fide regional self-help system requires delinking its disbursements from the IMF, and this in turn requires a robust surveillance and enforcement mechanism of its own. The latter's political implications are sufficiently unpalatable to dampen the enthusiasm for more ambitious designs for CMIM and serve us as a cause to remain skeptical over its future potential.

This article is organized as follows. The first section outlines the origins and evolution of the CMI from its 2000 inception to its 2010 multilateralization, discussing the driving forces behind it, the gradual strengthening of its institutional architecture and capacity, and its persistent limits. I identify two primary impetus for this regional project for greater monetary cooperation, both born out of the traumatic experience of the AFC: the economic need to enhance the financial resilience of the region, and the political wish to achieve this without turning to the United States. The second section examines the multilateralization of the CMI and its implications. I argue that while CMIM improves upon the limitations of the CMI and carries some symbolic significance, its substantive importance in terms of its ability to deliver on its intended purposes remains cripplingly restricted due to its continued subordination to the IMF. In the third section, I identify and discuss the lack of a credible surveillance and enforcement mechanism as the key *political* obstacle to the evolution of CMIM into an AMF, one that East Asia is unlikely to surmount anytime soon.

## DREAMING BIG, ACHIEVING LITTLE: THE ORIGINS OF THE CMI AND ITS LIMITS

There are two fundamental rationales behind East Asia's pursuit of the CMI and its multilateralization. One rationale, which is economic, is the regional actors' need to better manage financial globalization by making themselves more resilient and less vulnerable to the volatility of the global financial system; the other rationale, which is political, is their desire to achieve this without having to turn to extra-regional institutions and actors, namely the IMF and the United States. Both rationales are derived from the collective experience of the region during the AFC that taught three interrelated, rather painful lessons.

First, the crisis revealed the sheer lopsidedness of the battle between governments and markets, demonstrating clearly to East Asian countries—much as had been demonstrated to the French in 1983, the British in the 1992, and the Mexicans in 1994—that the financial resources disposable to individual countries were far too insufficient to withstand the forces of global financial markets. With the removal of capital controls had come a flood of foreign capital flows into the region, which could and did turn around rather abruptly to leave the erstwhile recipient countries high and dry. From Thailand to Indonesia and South Korea, the diminutive reserve holdings of the crisis-stricken countries were depleted in a matter of months and weeks, succumbing to a massive capital exodus and intense speculative attacks.

Second, the AFC revealed that while financial markets were prone to panic with a pronounced tendency for herding, governments in the region were incapable of coming up with a collective response. Even as what started as a relatively small, country-specific crisis in Thailand spread like a bushfire to engulf nearly the whole region, there was no institutional mechanism that would have made it possible for East Asian countries to at least attempt to find a regional solution to address the problem of contagion.[3] Bereft of such an option, East Asia remained helpless before the spectre of contagion and the crisis-stricken countries had to turn to the IMF.

Third, the crisis also revealed what nearly every other developing country had known all along: the IMF was not just the sort of benevolent provider of emergency loans that its Articles of Agreement made it out to be. This revelation goes beyond the many problems and critiques that the Fund faced regarding its misdiagnosis of the crisis and its draconian policy prescriptions.[4] Apart from the now widely held agreement that the IMF's cure was less than ideal if not worse than the disease, its handling of the crisis also showed the dominant influence of the United States on the Fund and Washington's willingness to throw its weight around to safeguard and seek its own parochial interests at the expense of the recipient countries (Blustein 2001, 141-8; Stiglitz 2002, ch. 4).[5]

The CMI was born out of these lessons of the AFC, which exposed the extent of the region's vulnerability to the ebb and flow of global finance, laid bare its powerlessness to offer any regional solutions, and generated a deep feeling of discontent and antipathy toward the IMF and the United States, in what Higgot (1998) called "the politics of resentment."[6] The CMI, however, was the AFC's "adopted" scion-adopted because there was another

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3 On herding behavior and contagion, see Calvo and Mendoza (2000) and Dornbusch, Park, and Claessens (2000).

4 See Sachs (1997), Krugman (1998), Feldstein (1998), and Kapur (1998). Perhaps the most unflattering, and certainly very controversial, criticism came in a New Republic article written by Joseph Stiglitz (2000), chief economist and vice-president of the World Bank during the height of the AFC. A collection of Stiglitz's speeches during the time of the Asian crisis is found in Chang (2001).

5 Even the IMF eventually came to admit its needlessly harsh policy prescriptions. In fact, it had become a routine for former-Managing Director Dominique Strauss-Kahn to admit the Fund's mismanagement of the crisis on his visits to Asian countries (Jakarta Post 2011; Hankyoreh 2010).

6 See also Ravenhill (2002), Hall (2004), and Sohn (2005).

initiative that came out of the crisis, one that succumbed to premature death. I am, of course, referring to the Japanese proposal for the AMF. Proposed in the thick of the AFC by the Japanese Ministry of Finance at the annual meetings of the World Bank and the IMF in September 1997, the AMF was envisioned as a regional mechanism of liquidity support that, had it come into being, would have provided large-scale short-term emergency loans to crisis-afflicted countries apart from the IMF. The AMF quickly fell victim to geopolitics and institutional resistance. However, as it faced insurmountable opposition from three key actors, two of which could make or break the whole deal: the United States, which saw the AMF as a Trojan horse to undermine its position of dominance; the Chinese, who were suspicious of the Japanese intent behind the proposal; and the IMF, which for institutional and bureaucratic reasons also opposed the AMF as a serious threat to its influence and relevance in the region.[7] The early demise of the AMF proposal was inevitable given how the constellation of political forces was lined up so unfavourably against it from the very beginning, especially in light of the intense opposition from Washington.

The CMI was thus launched as a second-best arrangement to the AMF, without the latter's more ambitious designs. Although it was "of the same philosophy as the AMF" as described by then Japanese Finance Minister Kiichi Miyazawa (quoted in Chey 2009, 460), its scope was necessarily limited and its ambition checked at the door, in a pragmatic compromise to assuage the hostility from the United States and the IMF and mitigate the Chinese resistance to what they had earlier perceived to have been a Japanese bid at regional economic hegemony. As a result, while the initiative allowed the region to resurrect the philosophical basis of the AMF, it fell far short of the much more ambitious designs of the ill-fated AMF in every aspect.

First of all, rather than being formally institutionalized as a

7 On the politics of the AMF proposal, see Blustein (2001, 162-70) and Lee (2006).

multilateral mechanism, what emerged was a stripped-down arrangement comprised of little more than a simple network of BSAs. Second, the overall funding capacity of the CMI, at only $36.5 billion initially, was much smaller than the $100 billion proposed under the AMF—given its nature as a collection of BSAs, the actual financing available to individual countries was far less than the aggregate sum, amounting to no more than a few billion dollars at most. Third, even this extremely limited funding could not be tapped fully without the vetting of the IMF, as the arrangement required the requesting country to first conclude an agreement with the Fund before it could access any financing beyond 10% of the eligible BSAs. Fourth, the CMI was also accompanied by an opt-out clause that further undermined its credibility. The contractual weakness inherent to such an opt-out arrangement cast a long shadow of doubt over the BSAs, rendering them highly uncertain and ultimately unenforceable. Last but not the least, the unveiling of the CMI was not followed by a viable surveillance and enforcement mechanism, an indispensable feature for any liquidity assistance arrangement if it is not to succumb to the problem of moral hazards lurking around such lending facilities. Despite the participating members' repeated expressions of interest in building the APT's surveillance capacity, the only tangible outcome was Economic Review and Policy Dialogue (ERPD), a rather vague process involving informal exchange of information and ill-defined, non-binding peer reviews.

One thing the CMI did accomplish, however, was limiting its membership to a purely regional basis by excluding the United States. At first glance this may seem to vindicate the blunt advocacy made by Euiseke Sakakibara, former Japanese deputy finance minister who spearheaded the AMF proposal, calling for "some types of regional cooperation of our own" for East Asia to avoid being "divided and ruled as in the colonial days and in the more recent past" (quoted in Lee 2009, 12).[8] However, a closer

8 On the exclusion of the United States from the CMI, see Bowles (2002) and Sohn (2007).

look at the CMI reveals that what appeared to have been the most tangible achievement of the CMI was in fact an empty victory, as the United States still retained its influence indirectly through the "IMF link" that subjected 90% of CMI funding to the Fund, an institution dominated by the United States. For this reason, in a marked departure from its sabotaging of the earlier AMF proposal, the United States did not oppose the CMI this time around. This absence of American resistance was not so much a reflection of its more receptive attitude toward an exclusively "Asian" solution, but rather it was more indicative of the weakness of the CMI as a secondary arrangement to the IMF, merely supplementary to the existing international monetary architecture—this also explains the lack of opposition from the IMF.

In response to these shortcomings, the APT took a series of additional steps to patch up the holes. First, to address the problem of the diminutive size, the BSAs were expanded several times to eventually reach a total of around $90 billion by 2008. Second, to make the CMI less dependent on the IMF link, the amount of disposable financing without the vetting of the Fund was increased from 10 to 20% in May 2005. Third, to increase its surveillance capacity, the APT formally incorporated ERPD into the CMI framework in the same year, mandating participation in the ERPD process as an eligibility criterion for CMI financing. And finally, these measures were followed by the implementation of a collective decision-making procedure for CMI activation, taken as an early step toward its eventual multilateralization (APT 2005).

None of these steps, however, made the CMI any more credible or even that useful for potential borrowers. Despite repeated increases, the size of the BSAs was still inadequate to provide much of a cushion, a problem that was exacerbated by the continuing subordination of the vast majority of CMI funding to the IMF. With 80% of its financing still left to the tender mercy of the Fund, "freely" available financing from the CMI was reduced to a nearly insignificant amount, undermining its role as a truly "regional" mechanism of liquidity support. The attempt to strengthen the surveillance capacity of the APT produced no tangible result either, as the ERPD continued to lack any clear direction, while discussions on multilateralization were bogged down over the allocation of contribution quotas and voting rights.

As a result of these continuing weaknesses, the CMI came nowhere close to satisfying either of its rationales. Its economic objective of providing regional liquidity support to its members was vitiated by the miniscule size of the available financing and the uncertainty over its disbursement, both of which seriously undercut its credibility as a reliable source of funding. Politically, the IMF link continued to subject the CMI under a subordinate position to the extra-regional institution and, by extension, the United States, thus defeating its political objective of carving out a more independent space for the region. Together, these failures rendered the CMI ineffective if not irrelevant.

To see the limits of the CMI, it is instructive to look at the policy responses taken by East Asian governments to deal with the global financial crisis of 2008. While the near collapse of the US banking system inflicted collateral damage around the world, the panic gripping the global financial system had a particularly swift and detrimental effect on emerging market economies. A number of potential borrower countries in East Asia, especially South Korea, saw capital inflows drying up, their currencies coming under intense pressure, and their foreign exchange (FX) reserves being depleted at an alarming rate. East Asia in the fall of 2008 was staring at what could potentially turn into a recurrence of the crisis of 1997. If there ever was a time when the CMI would be useful, this was it. Yet, no country drew from the CMI, even though its explicitly intended economic purpose was to provide liquidity relief precisely under such circumstances. Rather than turning to the CMI, regional actors chose to either rely on their own measures by running down their reserves or, in the case of South Korea, turn to the United States for assistance by opening and drawing from a $30 billion swap facility with the US Federal

9 The fallout from the US banking crisis was felt most acutely in South Korea, which came very close to suffering another major financial crisis.

Reserve Board.[9] Thus, the CMI not only remained completely dormant at the very moment it was meant to shine, but it was also bypassed in favor of the United States; both acts of omission and commission speak volumes about the actual relevance of the CMI for the region.

## CMI MULTINATIONALIZATION: ONE STEP CLOSER TO THE AMF?

The irrelevance of the CMI during the global financial crisis forced the APT to face its glaring limits and provided further impetus for a more concerted effort at bringing about its much-discussed multilateralization in 2010. Although multilateralization had been agreed upon in principle as early as 2005, disagreements over its implementation had been dragging it along for several years. At the center of the dispute were the contending positions of the three Northeast Asian countries over contribution quotas and voting rights, each wanting to make such a large contribution that the sum of the three countries' quotas exceeded the total?the member states of ASEAN, in contrast, were quick to reach an agreement on their individual shares among themselves. The Japanese position called for the largest contribution quota and voting rights, arguing that both their economy and their CMI

Although not as severe as the crisis of 1997, all the symptoms were there: onslaught of a severe credit crunch; drastic swings in capital flows that saw $74.9 billion flee the country; intense speculative attacks; and extreme exchange-rate instability (45% depreciation) that forced the Bank of Korea to intervene in the FX market, run down its reserves at an alarming rate, and eventually seek external assistance from the US Federal Reserve Board. It was the swap facility with the Feds that ultimately restored stability to Korea's FX market and prevented it from reliving the nightmare of 1997. For an overview of Asian countries' policy response to the 2008 global economic crisis, see Kawai, Lamberte, and Park (2012). On the crisis' implications for the region's financial cooperation, see Kawai (2009), Grimes (2009b, 2011b), Katada (2011), and Emmers and Ravenhill (2011).

contribution were then the largest in the region. This was unsurprisingly rejected by the Chinese, who insisted on a share that was at least equal to that of the Japanese, on the premise that China was the largest holder of international reserves in the world and its economy was about to take over the Japanese economy. For its part, South Korea desired to have a share equal to that of China, basing its argument on the advanced level of its economic development, the depth of its financial markets, and its large contributions under the CMI (Kawai 2010, 9; Grimes 2011a, 95–6).

The real bone of contention was between China and Japan. South Korea's attempt to project a degree of influence and prestige in CMIM equal to China was akin to trying to lift a boulder well beyond its weight. Aside from the fact that the size of the South Korean economy and its reserve holdings paled in comparison to its neighbors, unlike China and Japan, South Korea was not only a potential lender but also a potential borrower—the largest prospective borrower, in fact. Thus, the most difficult hurdle to multilateralization was for the Chinese and the Japanese to overcome, and narrowing this Sino-Japanese gap did not come about until they were compelled to do so by the urgency of the global financial crisis.

In a pragmatic and rather inventive compromise, both China and Japan got what they desired, at least on paper, by including Hong Kong as a new participant and taking advantage of its special status. On the surface the largest contribution quota did go to Japan, at 32% of the total pool, while China was given the second largest share at 28.5%. However, the introduction of Hong Kong with a 3.5% share of the pool increased the overall Chinese share to 32%, taking it to parity with the Japanese quota. In contrast, Korea's share of contribution fell quite a bit short of its desired level, receiving only half the share assigned to China and Japan at 16%. Nonetheless, its share was still much larger than what its relative economic weight called for in comparison to ASEAN countries, which together received 20% of the shares despite the fact that their combined output was much larger than

Korea's.[10]

With the biggest obstacle to multilateralization removed, the APT unveiled the basic contours of CMIM at its 2009 Finance Ministers' Meeting in Bali, Indonesia, and the arrangement came into effect in March of the following year with some minor modifications made at the 2010 APT Finance Ministers' Meeting in Tashkent, Uzbekistan. Aside from creating a self-managed reserve pool, multilateralization increased the size of the fund from $90 to $120 billion, and then doubled it to $240 billion in 2012. It also expanded the number of participants to include all members of ASEAN, bringing the five previously excluded countries into the fold: Brunei, Cambodia, Lao, Myanmar and Vietnam. Multilateralization also saw the unveiling of the institutional governance of CMIM, outlining contribution shares, borrowing quotas, voting weights, decision-making procedures, and a new surveillance mechanism (APT 2011, 2012).

The modus operandi of CMIM is somewhat similar to the governance structure of the IMF, where subscription quotas vary among members and voting rights and borrowing quotas are proportional to the contribution quotas (see table 1). Reflecting the economic disparity between the Plus Three countries and the ASEAN countries, the overall ratio of contributions between the two are set at 8:2, with the three Northeast Asian countries kicking in $192 billion and the remaining $48 billion coming from ASEAN states. The voting system is a weighted one with a small number of equal basic votes, much as is the case at the IMF. Every participating member except Hong Kong has equal basic votes (14.8% of the total), and the remainder of the votes are proportional to contribution quotas. Unlike at the IMF, however, borrowing quotas are set in a way that accommodates the participating members' different degrees of vulnerability to a liquidity crisis, as multiples of contribution quotas in an inverse relationship to their size. Thus, the ASEAN members making

10 By its economic weight, South Korea's share should have been around 11-12% (Kawai, 2010, 9).

smaller contributions, who are also the most likely candidates for the facility, have higher purchasing multiples, while Korea's quota, reflecting its status as both a lender and a borrower, is set at parity with its contribution. China and Japan, on the other hand, have access to only half their contributions, as the arrangement was never meant to be a source of emergency financing for them.

<Table 1> CMIM Contributions, Borrowing Quotas, and Voting Weights

<table>
<tr><th rowspan="2"></th><th colspan="4">Contribution</th><th rowspan="2">Purchasing multiple</th><th rowspan="2" colspan="2">Voting weight (%)</th></tr>
<tr><th colspan="2">US$ (billions)</th><th colspan="2">Share (%)</th></tr>
<tr><td rowspan="2">China</td><td rowspan="2">76.8</td><td>China, excluding Hong Kong: 68.4</td><td rowspan="2">32.0</td><td>28.5</td><td>0.5</td><td rowspan="2">28.41</td><td>25.43</td></tr>
<tr><td>Hong Kong: 8.4</td><td>3.5</td><td>2.5</td><td>2.98</td></tr>
<tr><td>Japan</td><td colspan="2">76.8</td><td colspan="2">32.0</td><td>0.5</td><td>28.41</td><td></td></tr>
<tr><td>South Korea</td><td colspan="2">38.4</td><td colspan="2">16.0</td><td>1</td><td>14.77</td><td></td></tr>
<tr><td>Plus 3 subtotal</td><td colspan="2">192.0</td><td colspan="2">80.0</td><td>–</td><td>71.59</td><td></td></tr>
<tr><td>Indonesia</td><td colspan="2">9.104</td><td colspan="2">3.793</td><td>2.5</td><td>4.369</td><td></td></tr>
<tr><td>Thailand</td><td colspan="2">9.104</td><td colspan="2">3.793</td><td>2.5</td><td>4.369</td><td></td></tr>
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<tr><td>Singapore</td><td colspan="2">9.104</td><td colspan="2">3.793</td><td>2.5</td><td>4.369</td><td></td></tr>
<tr><td>Philippines</td><td colspan="2">9.104</td><td colspan="2">3.793</td><td>2.5</td><td>4.369</td><td></td></tr>
<tr><td>Vietnam</td><td colspan="2">2.0</td><td colspan="2">0.833</td><td>5</td><td>1.847</td><td></td></tr>
<tr><td>Cambodia</td><td colspan="2">0.24</td><td colspan="2">0.100</td><td>5</td><td>1.222</td><td></td></tr>
<tr><td>Myanmar</td><td colspan="2">0.12</td><td colspan="2">0.050</td><td>5</td><td>1.179</td><td></td></tr>
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|---|---|---|---|---|
| Brunei | 0.06 | 0.025 | 5 | 1.158 |
| Lao | 0.06 | 0.025 | 5 | 1.158 |
| ASEAN subtotal | 48.0 | 20.00 | – | 28.41 |
| Total | 240.0 | – | – | – |

*Source: APT (2010, 2012).*

Decision-making at CMIM follows a two-tier system, with the more important decisions preserved to the ministerial level and lesser decisions to the deputy level. At the unveiling of CMIM, the ministerial level was initially comprised of APT finance ministers, but in 2013 this was expanded to include central bankers as well. "Fundamental issues" such as the review of the total size of CMIM, contribution quotas, and borrowing multiples, as well as readmission, membership, and terms of lending, are decided on consensus at the ministerial level. On the other hand, "executive level issues" such as initial execution of drawing, renewal, and default are determined by 2/3 majority at the deputy-level, comprised of deputy-representatives from finance ministries and central banks (APT 2010, 2012).

Aside from these features, multilateralization was also accompanied by a renewed effort at addressing the perennial problem of the APT's lack of credible surveillance capacity. In addition to further enhancing the ERPD process, the APT launched a more focused initiative by creating an independent, dedicated regional macroeconomic surveillance unit. Called the ASEAN+3 Macroeconomic Research Office (AMRO), this new surveillance office has been operational in Singapore since 2011. The task of this research office is "to monitor and analyze regional economies; contributing to the early detection of risks, swift implementation of remedial actions, and effective decision-making of the CMIM" (APT 2010).

As seen, the changes ushered in with multilateralization are extensive and significant. They certainly improve upon the previous CMI considerably, and multilateralization has clearly strengthened its erstwhile meager capacity. But do these changes fundamentally transform the CMI into something approximating the AMF, able to satisfy its twin objectives of providing effective, regionally exclusive and politically independent liquidity support to its members? To answer this question affirmatively, multilateralization must have achieved two things: create a large enough lending facility to be a credible source of emergency financing, and elevate the CMI from its subordinate position by removing the IMF link. Neither has been accomplished.

Although the latest increase in the size of the reserve pool doubled it to $240 billion, this number is not actually that impressive for a couple of reasons: this figure is the aggregate amount and the available financing for individual countries is much smaller; and despite increasing the delinked portion of the funding to 30% recently, the remaining 70% is still tied to the IMF.[11] The continued placement of the IMF link reduces the overall size of the "real" pool to only $72 billion and drastically draws back the actual size of financing. Any assessment of CMIM should therefore focus on its lending capacity for individual potential borrowers generated by this *delinked* number, not the aggregate pool.

Stripped of the linked funding, the individual borrowing quotas of CMIM are still ruefully inadequate by nearly every conceivable measure. Three representative metrics are presented in the following discussion, measuring CMIM's funding capacity relative to: 1) FX reserve holdings; 2) the 1997 rescue packages put together by the IMF; and 3) the level of exposure to flight-prone foreign capital.

In a widely known phenomenon, East Asian countries, along with nearly every other emerging market economy and developing country, have been hoarding massive amounts of international reserves since the crisis of 1997, as a "self-help" strategy to hedge against future disruptions in capital flows.[12] The APT members

11 The APT (2012) also indicated that the share of the delinked funding may be further increased to 40% in 2015, subject to review, as a compromise between the ASEAN countries pushing for a more substantial reduction in the IMF link and the lenders reluctant to endorse it.

12 On reserve accumulation in the emerging and developing world, see Bird

together hold over $6.1 trillion in reserves, dwarfing the total size of CMIM funding, which accounts for only 3.9% of the total FX reserves held by the participating economies. Individual contribution quotas relative to each member's reserve holdings are also miniscule, ranging from the low of 2% of for China and the high of 11.8% for South Korea. Borrowing quotas are somewhat higher than this, but only for ASEAN countries as a reflection of their higher borrowing multiples; and taking the IMF-linked portion away reduces them drastically to a single-digit level, ranging from the high of 8.1% for the Philippines and the low of 3.5% for South Korea, for a total of a paltry 1.1% (see table 2).

<Table 2> CMIM Contribution and Delinked Borrowing Quotas Relative to Reserve Holdings of Participating Countries, as of 2012 (Billions of US$ Unless Otherwise Noted)

| | Reserve holdings | Contribution Quotas | | Delinked Borrowing Quotas | |
|---|---|---|---|---|---|
| | | Amount | % of reserves | Amount | % of reserves |
| China, including HK | 3,819.30 | 76.8 | 2.0 | 11.52 | 0.3 |
| Japan | 1,238.70 | 76.8 | 6.2 | 11.52 | 0.9 |
| Korea | 326.4 | 38.4 | 11.8 | 11.52 | 3.5 |
| Indonesia | 98.1 | 9.104 | 9.3 | 6.828 | 7.0 |
| Thailand | 170.8 | 9.104 | 5.3 | 6.828 | 4.0 |
| Malaysia | 136.1 | 9.104 | 6.7 | 6.828 | 5.0 |
| Singapore | 259.8 | 9.104 | 3.5 | 6.828 | 2.6 |
| Philippines | 84 | 9.104 | 10.8 | 6.828 | 8.1 |
| Total | 6,133.20 | 237.52 | 3.9 | 68.7 | 1.1 |

*Source: IMF (n.d.). Excludes the contribution and borrowing quotas of $2.48 billion and $12.4 billion for news participants.*

and Rajan (2003), Mendoza (2004), Rodrik (2006), Teunissen and Akkerman (2006), Aizenman and Lee (2007), and Ocampo (2007).

The delinked lending capacity of CMIM is also small relative to the financing provided by the IMF during the 1997 Asian crisis. Under the new arrangement, the three countries in the region that received IMF financing in 1997–Indonesia, South Korea, and Thailand–can respectively draw up to around $6.8 billion, $11.5 billion, and $6.8 billion, for a combined amount of about $24.2 billion. This is much smaller than the sizes of the rescue packages put together for the three countries during the AFC, which together amounted to $117.9 billion. Adjusted for inflation, the combined financing freely available to the three countries is less than 16% of their IMF–led financing, with individual financing ranging from 12% to 29.5% (see table 3 for details).

<Table 3> CMIM Borrowing Quotas in Comparison to the IMF–led Financing in 1997 (Billions of US$ Unless Otherwise Noted)

| | 1997 financing (A) | Total borrowing quotas | | Delinked borrowing quotas | |
|---|---|---|---|---|---|
| | | Amount | % of A, inflation–adjusted | Amount | % of A, inflation–adjusted |
| Indonesia | 42.3 | 22.76 | 40.0 | 6.828 | 12.0 |
| South Korea | 58.4 | 38.4 | 48.9 | 11.52 | 14.7 |
| Thailand | 17.2 | 22.76 | 98.4 | 6.828 | 29.5 |
| Total | 117.9 | 83.9 | 52.9 | 25.2 | 15.9 |

*Source: APT (2010, 2012); IMF (n.d.).*

Because foreign capital inflow to East Asia has expanded greatly since the 1997 crisis, the scale of potential capital exodus from the region is also that much greater now. As such, the most appropriate metric to measure the adequacy of CMIM funding capacity is the current stock of flight–prone, short–term foreign capital. Two types of foreign capital are relevant here: short-term external liabilities and foreign portfolio investment (FPI). Borrowing from the standard practice used to estimate the appropriate level of FX reserves, the full amount of short-term external debts is included in measuring the potential sources and sizes of capital drain, and then a conservative ratio of 30% is applied to the stock of FPI to measure prospective capital drain from equity and debt securities markets.[13] As shown in table 4, the independent funding capacity of CMIM once again falls far short of the scale of potential capital drain: 10.3% for Thailand, 9.4% for Indonesia, and a meager 4.5 % for South Korea.

<Table 4> CMIM Borrowing Quotas Relative to Potential Capital Drain, as of 2011

| | Potential capital drain | | | Coverage ratio of borrowing quota (%) | |
|---|---|---|---|---|---|
| | Short-term debts | Short-term debts | Total | With IMF-link | Without IMF-link |
| Indonesia | 38.2 | 34.2 | 72.4 | 31.4 | 9.4 |
| South Korea | 137.4 | 137.4 | 258.7 | 14.8 | 4.5 |
| Thailand | 45.0 | 21.2 | 66.2 | 34.4 | 10.3 |
| Total | | 176.8 | 397.3 | 21.1 | 6.3 |

*Source: APT (2010, 2012); IMF (n.d.).*

Clearly, without removing the IMF link, CMIM cannot meet its

13 This borrows from the so-called "Guidotti-Greenspan" principle, which recommends sufficient reserve holdings to cover all short-term liabilities at minimum. For a discussion of estimation methods for measuring the appropriate level of FX reserves, see IMF (2011).

economic objective of providing its participants with regionally based liquidity support in times of financial instability. It is also equally clear that the continued maintenance of the IMF link straps CMIM in a straightjacket and incapacitates it from delivering on its political objective. This frustrates East Asia's wish to channel the "politics of resentment" into finding an effective counterweight to Washington. Logically and necessarily, then, delinking is the next step to take, but is East Asia ready to make this leap? The following section shows why skepticism is in order.

## BEYOND MULTILATERALIZATION: DELINKING FROM THE IMF?

The preceding discussion shows clearly that removing the IMF link is *sine qua non* for CMIM to no longer merely *supplement* the existing international financial arrangements and genuinely keep the United States out. It is also the most difficult problem faced by CMIM, due to the uninviting political implications that must be confronted. By comparison, increasing the size of the reserve pool is a much easier task, as demonstrated by the doubling of the reserve pool in 2012. Given the huge size of reserves held by the APT members, especially by the two largest lenders (over $5 trillion together), there is more than enough room for additional expansion in the pool. China and Japan alone can double it again by making an additional commitment of just 4.7% of their current combined reserve holdings, which will raise their commitment to only 7.8%, well below South Korea's current commitment. Removing the IMF-link, in contrast, is a far bigger problem.

One seemingly technical reason why CMIM plays second fiddle to the IMF is its lack of a credible surveillance mechanism. Without a robust surveillance mechanism of its own, CMIM cannot mitigate the potential problem of moral hazard inherent to any liquidity-support system. To address this problem, the APT must find some way to enforce, either *ex ante or ex post*, a concrete set of common standards and conditions, including but not limited to acceptable standards of economic management, lending criteria, disbursement conditions, repayment schedules, and serious peer review. All of these require a much broader and clearer agreement than that which the APT has managed to reach with its ERPD process (Grimes 2011a, 96–8).[14] While the APT has created AMRO in tandem with multilateralization to improve its surveillance capacity, the jury is still out on how effective and robust this new surveillance unit will be. AMRO's tasks are defined very broadly at least on paper, hitting all the major elements one would expect from a robust surveillance mechanism. These include monitoring of macroeconomic conditions and financial soundness; assessment of macroeconomic and financial vulnerabilities; formulation of policy recommendations; and ensuring of compliance with the terms of financing. AMRO has already undertaken policy reviews with the member states, which appear to have been well-received, indicating some success with the *ex ante* side of surveillance. The real test, however, lies with the *ex post* side—that is, with conditionality and its enforcement. After all, the IMF routinely engages in Article IV consultations with its members on a regular basis, and these policy reviews are considered neither difficult nor, given its poor track record, that useful when it comes to preventing financial crisis. The most difficult and substantive element of surveillance, one that requires a lot of grit and much pain, is formulating and enforcing conditionality. Exactly how much competence the APT will invest in AMRO to undertake this role remains highly uncertain

At its core, the lack of an effective surveillance mechanism and the resulting reliance on the IMF does not represent a technical barrier but a political problem. While some observers emphasize the lack of implementation capacity in some APT countries and of transparency in most countries as an important hurdle to the development of effective regional surveillance, this is not a problem that is specific or inherent to East Asia, but rather it is a problem faced by nearly all emerging market economies and developing

14 See also Kawai and Houser (2007) and Jung (2008).

countries−indeed, the sorry saga of Greece illustrates that lack of transparency is not a problem unique to the periphery.[15] Yet, weak implementation capacity and policy opacity have not prevented the IMF from engaging in Article IV consultations, formulating adjustment programs, and enforcing conditionality on some of the least transparent countries with the weakest implementation capacity in the world, not to mention its surveillance of the APT countries. Implementation−related issues therefore do not pose a sui *genesis* obstacle to the emergence of a *regional* surveillance mechanism in East Asia per se, but to surveillance in general. To make such technical barriers the source of the APT's inability to come up with its own surveillance mechanism is to open a debate on the effectiveness of surveillance as a whole, including that of the IMF, and this is a very different story from the challenges faced by the region.

The difficulty is political. One can think of this problem in at least three dimensions. First, there is the question of how the United States would react if the AMRO were to evolve into a robust enough surveillance mechanism to make the removal of the IMF−link finally feasible. More than anything else, the very weakness of the CMI and its continued subordination to the IMF even after multilateralization are what explains the American position of benign neglect and indifference. The regionally exclusive membership of CMIM frees the United States from having to make any financial commitment to the reserve pool. Therefore, the APT's lack of surveillance capacity allows it to retain indirect veto power over 70% of CMIM funding. This is all around a very attractive arrangement for the United States, but it hinges entirely on the IMF link. Any attempt to remove this link is therefore very likely to generate the kind of ferocious opposition from the United States provoked by the AMF proposal.

Second, CMIM lacks a firm political foundation for leadership or cooperation. With neither a clear regional hegemon nor a trust−

15 For a discussion of governance capacity as a variable to Asian regional integration, see Hamilton−Hart (2003).

based partnership of equals emerging, East Asia's monetary regionalism has been dependent on an awkward and often rocky partnership between two rival powers, China and Japan. Both of these countries are contending for regional leadership in an atmosphere of deep mutual distrust. This rules out the hegemonic path toward institution-building, as occurred under American hegemony with postwar international institutions. It also rules out the Franco-German path to regional cooperation as occurred in Europe (see Cohen 2006, 157-8; Cohen 2010, 15-22; Samuels 2007, 164-6; Grimes 2009a, ch. 1). Since neither China nor Japan is in a position of dominance to graft a robust surveillance mechanism into CMIM either by coercing or making side-payments, the second-best route is for the two countries to hammer out their differences. They can do this by reaching a mutually acceptable agreement on how surveillance is to be undertaken and making a firm commitment to stick to the agreement. This, however, requires the kind of confidence that is not found in Sino-Japanese relations, as surveillance, especially the enforcement of conditionality, entails politically difficult and unpleasant costs for the lenders. China and Japan are very likely to face the "politics of resentment" from the borrowers just as the IMF and the United States did. This may tempt one or both of them to defect in a bid to increase their influence by accommodating the borrowers. In this context, the IMF link provides a convenient way out of the dilemma for China and Japan, as it enables them to let the Fund be the lightening rod of discontent while denying any political responsibility for conditionality (Grimes 2011a, 97). For this reason, neither China nor Japan has been particularly proactive or aggressive in dealing with CMIM's lack of surveillance capacity, despite the fact that the problem of moral hazard is fundamentally their problem. This is especially true for China, which has indicated clearly that a robust surveillance mechanism is not in its priority. One Chinese Finance Ministry official observed, "We should prevent [AMRO] from intervening in other countries' internal affairs, because the monitoring function is only a supervision or performance tracing mechanism necessary in order to provide consultation to relevant countries."[16]

Finally, while surveillance and enforcement entail not-so-negligible political costs to the lenders, their costs are far greater to the borrowers. If conditionality and enforcement pose difficult decisions for China and Japan, these are even more difficult decisions for the borrowers that intrude into their internal affairs and seriously erode their economic sovereignty. For obvious reasons the latter are deeply ambivalent about this, especially given ASEAN's long-running tradition of jealously guarding the principle of non-interference-the so-called "ASEAN Way." In this light, enhancing the surveillance capacity of CMIM is not just appealing to the borrowers but also quite disconcerting. It is appealing in that it would put in the conditions necessary for the removal of the IMF link. This would finally turn CMIM into a genuinely regional "self-help" mechanism able "to address short-term liquidity difficulties in the region," as repeatedly emphasized by the APT. It would do so without having to secure the countenance of the United States. It would be disconcerting, also, because the emergence of such a robust surveillance mechanism would necessarily raise the political costs of tapping into CMIM financing. There is no guarantee that these costs would be any lower than those accompanying financing from the IMF. The borrowers' enthusiasm for delinking from the IMF is therefore dampened by the fact that a regional surveillance and enforcement mechanism cannot be assumed to be any less burdensome or costly than that of the IMF. This assumption is needed if the mechanism is to have any real teeth satisfying enough to the lenders. There is, in other words, no basis to expect that a delinked CMIM with its own surveillance mechanism would somehow be more benevolent and generous to the borrowers than the IMF just because of its regional scope. Nor are there grounds to believe that China and Japan would somehow be more enlightened and less self-interested than

16 Quoted in Yuan and Murphy (2010, 7). For a discussion of China's approach to regional integration, see Sun (2010).

the United States just by the virtue of their geographic proximity.[17] The borrowing countries also have every incentive to resist efforts to strengthen CMIM's surveillance capacity to the degree that would make delinking possible.

The fundamental problem facing AMRO is that no one truly wants a robust surveillance mechanism for its political implications—not the United States, not the lenders, not the borrowers. For the United States, the strengthening of the APT's independent surveillance unit means the lynchpin of its influence over CMIM, the IMF link, will be finally removed for good. For China and Japan, vesting AMRO with sufficient competency to address the problem of moral hazard means having to play the role of the bad cop against the borrowers while entertaining the distinct possibility that the other side might suddenly step into the good cop's shoes. And for the borrowers, it means substituting one source of discontent with another, the latter of which, despite closer proximity, cannot be assumed to be any more "neighborly" than the former. This is at the heart of the political obstacles facing the region, a daunting wall of distrust and resistance casting a long shadow of pessimism over CMIM's prospects and making the glass of East Asian monetary regionalism decidedly half-empty.

## CONCLUSION

Optimistic proponents of East Asian regionalism may ask, along the lines of familiar institutionalist retort, why states in the region have put over a decade of effort into the CMI and its multilateralization

17 In a move that surprised some observers, the Japanese recently decided to let its $57 billion BSA with South Korea lapse amid escalating diplomatic rows over Dokdo Island. This is widely seen as a deliberate, politically motivated decision, calibrated to put pressure on South Korea. It also illustrates the potential use of CMIM funding as a source of leverage by the lenders.

18 For functionalist explanations of monetary and financial cooperation in East Asia, see Girardin (2004), (Olarn 2004), Kawai (2005), and Spiegel (2009).

if it is such a feeble arrangement as argued in this article.[18] Alternatively, those of constructivist persuasion may point out that the findings of this paper ignore the emergence of an East Asian identity that is generating a new grammar to reconstitute the social meaning of the region and its interests.[19] Both strands of optimism are not entirely groundless, but their reading of East Asian monetary regionalism as a glass half-full is ahead of its time.

Although the region's attempt at institutionalized cooperation in financial and monetary affairs is a novel departure from the past dynamics of East Asian regionalism, the effort has been meager at best and, to be less charitable, quite marginal. This was clearly demonstrated by the fact that even after nearly a decade of institution-building, the CMI was completely irrelevant to the participating countries' responses to the global financial crisis of 2008. Furthermore, states invest in cooperative ventures for any number of reasons, not all of which are to meet functional needs. The demand for cooperative arrangement alone cannot explain why international institutions emerge, far less guarantee their success. A cursory look at innumerable international organizations shows that states are quite willing to invest in dysfunctional and ineffective institutions; they are just not willing to invest much. And thus far, East Asian countries' investment in CMIM has been rather limited.

As for the constructivist claim of a budding East Asian identity reshaping its interest formation and articulation to serve as the engine of greater monetary cooperation in the region, this view is based more on normative preferences than an empirical reality. While the possibility of such a pan-regional identity emerging in the future is not ruled out, it is in the realm of a very distant future. For now and into the near future, East Asia remains a fundamentally geographic concept first and foremost. The sheer heterogeneity of the region (wide-ranging disparity in economic

19 On the emergence of an East Asian collective identity and its role in regionalism, see Yu (2003), Evans (2005), and Lee (2006, 2009).

conditions, diverse historical experiences, divergent domestic political organization, external security needs, and vibrant multiplicity of cultural norms) militate against the near emergence of a coherent collective identity defined by anything more substantive than simple geographic proximity.

Economy-wise, despite the emergence of extensive regional networks of production and growing intraregional trade, there still are wide disparities in the economic conditions of the region, ranging from the industrial powerhouses in Northeast Asia to the largely agrarian, pre-industrial economies in Southeast Asia. While there is plenty of shared history in the region, there is no shared understanding of this history. This is shown by the ongoing controversy over Japanese history textbooks and the more recent Chinese attempt to rewrite the ancient history of the region. Politically, East Asia is a cauldron of nearly every type of political regime conceivable between the two polar ends of the spectrum. It ranges from full-fledged democracies to one-party dictatorships. The regional security complex is extremely fragile. This is complicated by the rising power of China, the relative decline of Japan, and uncertainty over the future of the traditionally dominant role of the United States in the region. There are many unsettled territorial disputes in East Asia that periodically incite intense nationalist sentiments and inevitably reopen the old wounds of the region's unpleasant past. Finally, East Asia remains an essentially multicultural region with neither a clear articulation of a coherent collective identity nor a set of widely shared values that would justify speaking of East Asia as a distinct cultural entity. The desire to exclude one state, even a big and important one like the United States, does not a collective identity make.

In short, the old clichés associated with East Asian regionalism remain largely intact. Despite its decade-long effort to find a politically independent regional solution to the problem of financial instability, the APT has not been able to move the CMI anywhere close to the AMF. It took half a decade and another very scary crisis before multilateralization (agreed in principle in 2005) could be implemented. Contrary to all the fanfare, turning already existing BSAs into a reserve pool of a relatively modest size is not something that difficult to achieve, especially if it is self-managed. The real test lies with the ability of the APT to come up with a credible surveillance mechanism that makes delinking from the IMF feasible. However, the prospects of achieving this remain highly uncertain. If multilateralization is a step toward the AMF, it is merely a small step before making a giant leap, and thus far East Asia has shown us no reason to believe that it is capable of taking this leap of faith anytime soon.

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