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Enhancing the Effectiveness of CMIM and AMRO: Selected Immediate Challenges and Tasks

Reza Siregar and
Akkharaphol
Chabchitrchaidol

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Reza Siregar and Akkharaphol Chabchitrchaidol are senior economist and economist, respectively, at the ASEAN+3 Macroeconomic Research Office (AMRO) in Singapore.

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Please contact the authors for information about this paper.

Email: Reza.Siregar@amro-asia.org; A.Chabchitrchaidol@amro-asia.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

Abstract

The Chiang Mai Initiative Multilateralisation (CMIM) and the ASEAN+3 Macroeconomic Research Office (AMRO), established in March 2010 and May 2011, respectively, have made substantial headway. But despite the rapid progress, a series of fundamental questions have been raised, particularly about the size of the CMIM facility. Although CMIM funding was doubled to $240 billion, effective since May 2012, the swap amount has frequently been criticized as insufficient. Another fundamental issue that still needs to be agreed upon is the CMIM's role and how it fits in among existing regional and global financing facilities. AMRO's surveillance work is seen as vital to the overall success of the CMIM in regional financial cooperation. As other multilateral institutions involved in surveillance work have experienced, effective surveillance to support regional financial cooperation is a complicated task, strewn with obstacles. The primary task of this paper is to suggest possible areas in which the effectiveness of the CMIM and AMRO may be increased, despite constraints and limitations.

JEL Classification: E61, F15, F33

In this report $ refers to US$.

Contents

1. INTRODUCTION

Recent crises, particularly the on-going sovereign debt crisis in the euro area economies, has provided momentum to greater regional financial cooperation in the region This is particularly evident among the Association of Southeast Asian Nations (ASEAN)+3 economies[1]. Through the establishment of the Chiang Mai Initiative Multilateralisation (CMIM) and the ASEAN+3 Macroeconomic Research Office (AMRO) in March 2010 and May 2011, respectively, substantial headway has been made in this regard.

Despite the advance of regional cooperation among the ASEAN+3 economies, a series of fundamental questions have been raised, above all about the size of the CMIM facility. Although the CMIM was doubled in size to $240 billion with effect from May 2012, the amount has frequently been criticized as insufficient. The European (EFSF) of 750 billion euro in 2011, for instance, amounted to about 8% of the total gross domestic product (GDP) of the euro area, while the CMIM amounted to only about 1.5% of the total GDP of the ASEAN+3 economies. The question, therefore is whether the CMIM can be an effective and relevant part of regional financial cooperation given its limited financial resources?

Another fundamental issue is the role of the CMIM, and its relation to other available facilities, including bilateral swap lines, as well as global facilities—most notably those provided by the International Monetary Fund (IMF). During the 2008 global financial crisis and the 2011 euro area sovereign debt crisis, some ASEAN+3 member economies had access to bilateral swap facilities from both the major ASEAN+3 economies (the People's Republic of China [PRC] and Japan) and their traditional global trading partner (the United States [US]). Given the availability of other sources of liquidity support, should access to and disbursement of the CMIM's facilities be more precisely defined, and should it play a more systematic role in the region's financial architecture? In addition, the issue of accessibility frequently centers upon the types of conditionality attached to the facility. In order to add value to existing global and regional financial arrangements, many have argued that the CMIM facility must at least be complimentary to those arrangements and provide greater flexibility and accessibility for ASEAN+3 member economies. Yet, the conditionalities which could be related to potential CMIM lending remain vague, even by mid-2012.

The role of AMRO as a surveillance office for the CMIM is vital to the overall success of regional financial cooperation; without a credible and qualified surveillance capacity, it is difficult to envision an effective CMIM. Yet, numerous obstacles face the surveillance work of even well-established global multilateral institutions, such as the International Monetary Fund (IMF), which AMRO will need to overcome, going forward. Strengthening AMRO's capacity to fulfill its primary responsibility has been passionately debated by CMIM members at the meetings of the deputies of ASEAN+3 Finance Ministries and Central Banks. Typical discussions centered on key concerns, including how AMRO's regional surveillance work would provide value-added to the surveillance work carried out by the IMF, the Asian Development Bank (ADB), and those prepared by the member economies themselves. Other concerns were about h AMRO surveillance could be distinguished from that of existing global and regional surveillance, as well as the minimum infrastructure and set-up requirements that AMRO would needs to be in a position to become a credible surveillance unit for the CMIM.

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[1] ASEAN+3 includes the ASEAN economies (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand, Singapore, Viet Nam) and the Plus-3 (the PRC, Japan, and the Republic of Korea), as well as Hong Kong, China.

This paper makes no attempt to present a comprehensive discussion on the CMIM and AMRO. A number of studies have dwelled upon the rationale and motivation behind the introduction of the CMIM and regional financial cooperation (Sussangkarn 2011; Jomo 2010). Others have also deliberated on various possible frameworks that CMIM and AMRO could adopt based on the experience of other regional and global arrangements (Takagi 2010). The primary task of this paper is to return to and provide constructive responses to the set of issues and challenges discussed in earlier paragraphs. In particular, we focus our discussion on two issues concerning the CMIM—its role in the context of global and regional financial cooperation, and the design of the facility's conditionality. Moreover, we will also consider several aspects relating to the surveillance activities of AMRO. In short, the primary aim of this paper is to suggest possible areas in which the effectiveness of the CMIM and AMRO may be increased, despite numerous constraints and limitations.

The outline of the paper is as follows. The next section presents a brief history and highlights some of the recent developments and commitments of the CMIM and AMRO. In section three, we discuss the set of latent challenges mentioned above and suggest responses to overcome them. A brief concluding remarks section ends the paper.

2. RECENT COMMITMENTS

2.1 The CMIM

Arguably, the most significant outcome of the ASEAN+3 Finance and Central Bank Deputies Meeting in May 2012 was the enhancement of the ASEAN+3 Finance Ministers Meeting (AFMM+3) to the ASEAN+3 Finance Ministers and Central Bank Governors' Meeting (AFMGM+3), whereby the central bank Governors of the 13 member countries (plus Hong Kong, China) would henceforth be invited to participate in this annual senior-level meeting of the ASEAN+3 economies. In past AFMM+3 meetings, central banks were represented at the deputy governor level, so held a lower-level position in the overall decision-making process. The inclusion of central bank Governors marked the beginning of a more comprehensive and integrated approach to the management of regional financial cooperation, whereby both fiscal and monetary policy officials jointly oversee and decide on CMIM matters. Participation of central bank governors in the annual ASEAN+3 Finance Ministers and Central Bank Governors' Meeting would also allow a more meaningful and in-depth discussion on the challenges and vulnerabilities of each economy, and further potential avenues for cooperation. As frequently stressed in past works, such as Takagi (2010), surveillance activities must reach audiences at the highest levels of policymaking to be relevant and effective.

During the Annual AFMGM+3 Meeting in May 2012, several other major new commitments were announced (Table 1). Responding to the potential need for a larger swap facility, the CMIM Executive Committee announced the doubling of the swap facility to $240 billion in May 2012. Given the adjusted contribution, while keeping the "purchasing multiples" unchanged, major ASEAN economies (Indonesia, Malaysia, Philippines, Thailand, and Singapore) now have access to approximately $22.76 billion each, an increase from $4.55 billion previously (Table 2). At the same meeting, an increase in the IMF de-linked portion from 20% to 30% was also announced. A number of ASEAN+3 economies in fact proposed a higher de-link portion, but as a group eventually agreed to review the issue again in 2014, with the intention of further increasing the de-linked portion to 40%. During their deliberations, it was acknowledged that one of the key factors behind the doubling of the total swap facility and the rise in the de-linked portion is the recognition of the speedy establishment of the ASEAN+3 Macroeconomic Research Office (AMRO) and the timely delivery of well-received AMRO surveillance reports by the Executive Committee during the Deputies Meeting in Sendai, Japan in December 2011 and in Phnom Penh, Cambodia in March 2012. Furthermore, reflecting their appreciation of the urgency in anticipating and preventing future financial crisis, the ASEAN+3 Finance Ministers and Central Bank Governors approved the establishment of an additional function for the CMIM—a crisis prevention function, in addition to the crisis resolution function.

Table 1: Recent developments to the CMIM

	Announced 3 May 2012	**Previous**
Size	USD 240 bn	USD 120 bn
IMF de-linked portion	30% in 2012, up to 40% in 2012 subject to review	20%
Maturity (full amount)	12 months, with 2 renewals	90 days
Supporting period (full amount)	3 years	2 years
Maturity (IMF de-linked amount)	6 months, with 3 renewals	90 days
Supporting period (full amount)	2 years	1 years
Scope of facilities	• Crisis resolution function: renamed as CMIM Stability Facility • Introduction of crisis prevention function: CMIM Precautionary Line	Crisis resolution function

Source: AMRO website

Under the current framework of the CMIM, a detailed set of operational guidelines was established, which would enable any swap requests to be processed efficiently and in a timely manner, typically within seven days of a request being made. Given that one of the original driving forces behind establishment of the CMIM was to ensure a quick and timely disbursement procedure, this established decision-making framework is an important feature of an effective CMIM. The issue of operational efficiency aside, the main challenge is to assure that lenders are satisfied that various safeguards are in place to ensure that any money lent is repaid. The CMIM Agreement currently addresses this in its most minimal form, through a set of precedent conditions that a member country must comply with prior to swap activation, and a set of covenants it needs to comply with throughout the borrowing period. However, such a framework forms only a basic backbone of the conditions that borrowing countries are expected to adhere to. Arguably, what is lacking is policy guidance or conditionality, such that a country that borrows also undertakes policy adjustments towards a more sustainable path, which in turn can reassure lenders of a capacity to repay. In this regard, it is important that a credible framework for conditionality is established early on, preferably during non-crisis periods. More in-depth discussions on these vital and sensitive matters will be elaborated in Section 3 of this paper.

Table 2: CMIM Contributions and Purchasing Multiples

Countries		Financial Contribution (billion USD)		Share(%)		Purchasing Multiple	Maximum Swap Amount (billion USD)
Plus Three		**192.00**		**80.00**			**117.30**
Japan		76.80		32.00		0.5	38.40
PRC	**PRC**	76.80	68.40	32.00	28.50	0.5	34.20
	Hong Kong, China		8.40		3.50	2.5	6.30
Rep. of Korea		38.40		16.00		1	38.40
ASEAN		**48.00**		**20.00**			**126.20**
Indonesia		9.104		3.793		2.5	22.76
Thailand		9.104		3.793		2.5	22.76
Malaysia		9.104		3.793		2.5	22.76
Singapore		9.104		3.793		2.5	22.76
Philippines		9.104		3.793		2.5	22.76
Viet Nam		2.00		0.833		5	10.00
Cambodia		0.24		0.100		5	1.20
Myanmar		0.12		0.050		5	0.60
Brunei Dar.		0.06		0.025		5	0.30
Lao PDR		0.06		0.025		5	0.30
Total		**240.00**		**100.00**			**243.50**

Brunei Dar. = Brunei Darussalam.

Source: CMIM Agreement, available at AMRO website.

2.2 The ASEAN+3 Macroeconomic Research Office (AMRO)

In late May 2012, AMRO welcomed its new director. Yoichi Nemoto, a senior official from the Ministry of Finance of Japan, became the second director of AMRO, replacing Benhua Wei, a senior official who had previously worked at the State Administration of Foreign Exchange of the People's Republic of China. The transition was a smooth one, as Mr. Nemoto had worked with Mr. Wei since AMRO's establishment as a counselor. Within less than a year of Mr. Wei's appointment, a team of about 20 full-time staff had been assembled. In the process, three teams of economists, each headed by a senior economist, relocated to AMRO's Singapore office from various ASEAN+3 economies. Each team is assigned and mandated to conduct macroeconomic surveillance on a set of ASEAN+3 economies (Figure 1).

Depending on their past work experience, each economist and senior economist is also assigned to one of three area-focused study units, covering fiscal matters; monetary and exchange rate matters; and financial markets. Each unit is tasked with the responsibility to evaluate and assess each particular area across different ASEAN+3 economies. The fiscal team, for instance, is tasked to study various issues on budget and fiscal policy of each ASEAN+3 economy, and carry out cross-country analyses within the ASEAN+3 economies, and if necessary, with other groups of economies around the world. Ultimately, each group aims to identify a set of key indicators to assess the strengths and weaknesses facing each member economy.[2]

Since December 2011, AMRO has submitted on a quarterly basis a set of surveillance reports[3]. The first set comprises individual country (bilateral) surveillance reports on all fourteen economies of the ASEAN+3 (including Hong Kong, China). In addition, the ASEAN+3 Regional Economic Monitoring (AREM) report is produced quarterly to assess and monitor developments in the global economic environment and its impact on ASEAN+3 economies (multilateral-surveillance perspective). In each of these country surveillance and AREM reports, the emphasis is more on short-term potential risks and vulnerabilities, and less on medium to long-term structural challenges.

In addition to the core team of economists, a team of administrative staff managing financial matters, human resources, and other day-to-day office matters, a legal expert, and a senior official to deal especially with CMIM and ASEAN+3-related matters are also in place. A six-person Advisory Panel, with three persons nominated jointly by the ASEAN countries and three from each Plus-3 country[4], meets with the AMRO director and senior economists on a quarterly basis. The role of the panel includes providing strategic guidance on AMRO's role and activities, and technical guidance on AMRO's economic and financial surveillance, assessments, and analysis.

3. SELECTED CHALLENGES AND SCOPE FOR AN EFFECTIVE CMIM FACILITY

Despite the current limitation in size of the available swap facility at $240 billion, a number of measures can be adopted to enhance the effectiveness of the CMIM framework. This section focuses on two key areas. The first area is the relationship between bilateral and multilateral swap facility arrangements. A number of possible avenues for cooperation between a multilateral swap facility such as the CMIM and other available bilateral swap arrangements could complement each other, and therefore boost their capacity and effectiveness. The second focus is on the design of CMIM disbursement, including some aspects of possible

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[2] The set of indicators is compiled to generate score-cards for each individual economy of the ASEAN+3.

[3] The reports are submitted in March, June, September, and November to early December every year.

[4] Current members of AMRO's Advisory Panel include Dr. Kang Jia, president, Research Institute for Fiscal Finance, People's Republic of China; Mr. Shigeo Katsu, president, Nazarbayev University, Kazakhstan; Dr. Junkyu Lee, senior international economic advisor, Ministry of Strategy and Finance, Republic of Korea; Dato' Ooi Sang Kuang, special advisor, Bank Negara Malaysia; Dr. Vincente B. Valdepenas Jr., consultant, Bangko Sentral ng Pilipinas; and Dr. Chalongphob Sussangkarn, distinguished fellow, Thailand Development Research Institute (Advisory Panel chair).

conditionalities attached to the CMIM facility, with particular emphasis on timely disbursement, while at the same time safeguarding against potential moral hazard[5].

3.1 Coordination between Bilateral and Multilateral Swap Facility Arrangements

Over the past few years, numerous bilateral swap arrangements have been established amongst the ASEAN+3 economies (Table 3). The PRC and Japan, for instance, have extended swap facilities to Indonesia, Malaysia, Thailand, and the Republic of Korea (henceforth, Korea) over the years to mitigate potential liquidity concerns facing recipient economies, and also to safeguard and promote bilateral trade activities. It is also interesting to note that in some cases the size of the bilateral swap facilities is well above the maximum swap facility extended by the CMIM. Malaysia, for instance, secured a RMB180 billion (or about $30 billion) bilateral swap arrangement with the People’s Bank of China in February 2012 for a period of three years (until February 2015). This swap facility is indeed larger than the $22.76 billion maximum swap facility that Malaysia is entitled to from the CMIM facility.

Table 3: Recent Bilateral Swap Involving ASEAN+3 Economies

Signing date/Expiry date	Countries	Type of Swap		Amount
2 May 2012/ 3 May 2015	Bangko Sentral ng Pilipinas (BSP) and Bank of Japan (BOJ)	Bilateral Swap Arrangement (BSA)	Under the $6.5 billion BSA, the BOJ would provide the BSP up to $6 billion in financial assistance in exchange for a corresponding amount of Philippine currency in case Manila's foreign exchange reserves drop to a level that risks a run on the peso. As a two-way swap arrangement, the BSP also would provide the BOJ up to $500 million in assistance in exchange for a corresponding amount of Japanese yen if Tokyo similarly were faced with balance of payments (BOP) difficulties.	$6.5 bn: BOJ→BSP 0.5 bn BSP→BOJ.
19 October 2011/ effective until the end of October 2012	Bank of Japan and the Bank of Korea	Yen-Won Swap Arrangement	Non-crisis situation, to stabilizing regional financial markets through supplying short-term liquidity.	30 billion US dollars equivalent in Yen.
	BOK jointly with Ministry of Strategy and Finance and Japan's finance ministry	Won-USD Swap Arrangement	Mutual benefits and financial stability to enhance the country's sovereign credit condition.	40 billion dollars (from 10 billion dollars).
22 June 2010/ 3 July 2013	Bank of Japan and the Bank of Korea	Yen-Won Swap Arrangement	Bilateral yen-won swap arrangement, for supplying short-term liquidity and enhance mutual cooperation between the two central banks.	3 billion US dollars equivalent in yen and won.

[5] There is a concern that a regional safety net mechanism such as the CMIM could potentially induce moral hazard within its own facility and also vis-à-vis global mechanisms such as the IMF (Sussangkarn 2011).

Table 3: (continued)

Signing date/Expiry date	Countries	Type of Swap		Amount
22 March 2012/ 21 March 2015	People's Bank of China and the Reserve Bank of Australia	Bilateral Local Currency Swap	For the purpose of promoting bilateral financial cooperation, facilitating bilateral trade and investment, and safeguarding regional financial stability	200 billion yuan or A$30 billion.
20 March 2012/ 19 March 2015	People's Bank of China and Bank of Mongolia	Bilateral Local Currency Swap Supplemental Agreement	The two sides believe that this renewed arrangement will help facilitate bilateral investment and trade and safeguard regional financial stability.	Increased from original 5 billion yuan or 1 trillion MNT to 10 billion yuan or 2 trillion MNT.
21 February 2012/ 20 February 2015	People's Bank of China and the Central Bank of the Republic of Turkey	Bilateral Local Currency Swap	For the purpose of promoting bilateral financial cooperation, facilitating bilateral trade and investment, and maintaining regional financial stability.	10 billion yuan or 3 billion Turkish lira.
8 February 2012/ 7 February 2015	People's Bank of China and Central Bank of Malaysia	Bilateral Local Currency Swap	The two sides believe that this renewed arrangement will help promote investment and trade between the two countries and safeguard regional financial stability.	Increased size from 80 billion yuan/MYR40 billion to 180 billion yuan/MYR90 billion.
17 January 2012/ 16 January 2015	People's Bank of China and Central Bank of the UAE	Bilateral Local Currency Swap	For the purpose of promoting bilateral financial cooperation, facilitating bilateral trade and investment, and maintaining regional financial stability	The amount of the agreement is 35 billion yuan or 20 billion dirham.
22 December 2011/ 21 December 2014	People's Bank of China and the Bank of Thailand	Bilateral Local Currency Swap	For the purpose of promoting bilateral financial cooperation, facilitating bilateral trade and investment, and maintaining regional financial stability	The amount of the agreement is 70 billion yuan or 320 billion Thai Baht.
23 December 2011/ 22 December 2014	People's Bank of China and the State Bank of Pakistan	Bilateral Local Currency Swap	For the purpose of promoting bilateral financial cooperation, facilitating bilateral trade and investment, and maintaining regional financial stability.	The amount of the agreement is 10 billion yuan or 140 billion Pakistan Rupee.
26 October 2011/ 25 October 2014	People's Bank of China and Bank of Korea	Bilateral Local Currency Swap	The two central banks have also agreed to explore the possibility of converting some swap currencies into reserve currencies. The two sides believe that this renewed arrangement will help enhance bilateral financial cooperation, promote investment and trade between the two countries, and safeguard regional financial stability.	Increase in size from 180 billion yuan/38 trillion won to 360 billion yuan/64 trillion won.

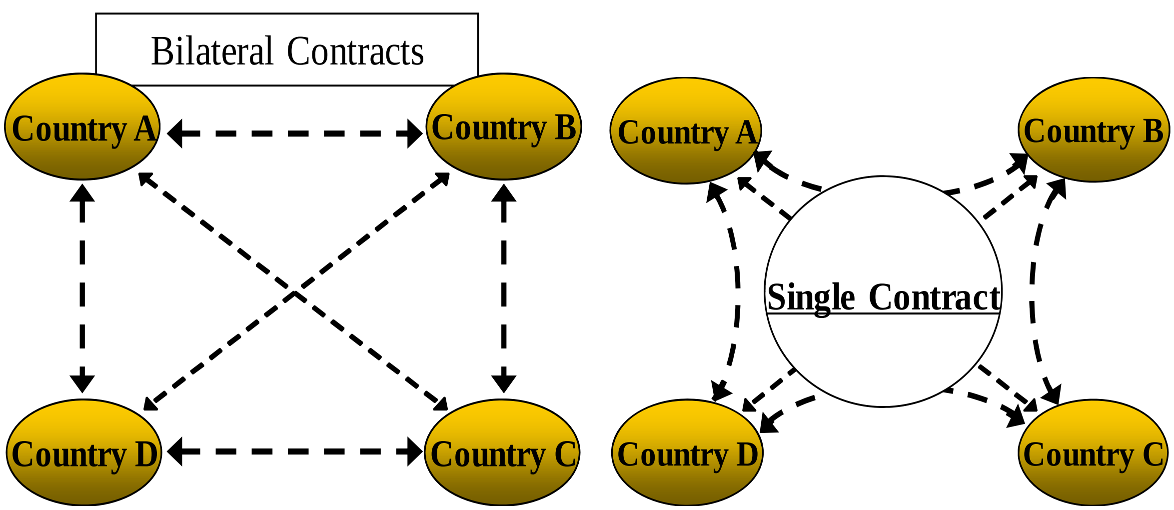
Source: National authorities' websites

With the multilateralization of the Chiang Mai initiative, the current challenge is not only to avoid potential conflicts between these two approaches, but also to find ways to create synergy between these two types of facilities. Without concrete coordination there is a real risk that the CMIM is undermined by the bilateral facilities, and vice versa. After all, what would be the incentive for an ASEAN+3 economy to apply for the CMIM facility, especially given the size limitation? How can a multilateral swap facility like the CMIM become an attractive facility given a choice of bilateral swap facilities and IMF funding facilities, without leading to moral hazard, while preventing “facility shopping”?

Bilateral and CMIM swap arrangements can indeed complement each other if they are well coordinated. More importantly, decisions to extend both bilateral and CMIM swap facilities should be taken consistently and, as much as possible, under one general framework. In particular, a common framework for bilateral and CMIM swap facilities among the ASEAN+3 economies can be agreed upon in a joint memorandum of understanding. As part of broad guidelines, any request from a member of the ASEAN+3 economies for a bilateral swap facility from another member of the ASEAN+3 should first be submitted to the CMIM facility for consideration. In other words, the request should go through an evaluation and decision process under the CMIM framework. Should the request be approved by the CMIM’s Executive Committee, the requesting member economy would then be entitled to receive its available maximum swap amount listed in Table 2. In the event that the available CMIM swap amount is less than the amount requested or needed, the bilateral swap can supplement or top-up the difference.

Both parties—the recipient and the lender—can benefit from this proposal. The eligible recipient economy is in position to receive a swap amount larger than its maximum swap amount under the CMIM; the swap provider can take comfort in the due process of surveillance and approval under the CMIM facility, before having to extend the fund. Without this arrangement, the swap providing economy would have to rely on its own surveillance process, before the swap takes place and afterwards, to decide on the request. Furthermore, the swap-providing economy must bear the whole amount of the swap requested under the non-cooperative framework. However, under a single contract of multilateral swap facility, the swap provider does not have to shoulder the risk of the full amount, as some of the funds fall under the multilateral facility (Figure 1). Naturally, designing appropriate conditionalities attached to the facility is critical. The viewpoint on conditionalities will be discussed in a greater detail in the next sub-section.

Figure 1: From Bilateral to Multilateral Approaches



Source: AMRO

3.2 Conditionality: Accessibility while Safeguarding against Moral Hazard

The legacy and stigma of the 1997 East Asian financial crisis among major East and Southeast Asian economies remains strong. “The conditionalities attached to the 1997–1998 East Asian crisis IMF packages across a number of the East Asian economies were very stringent, involving punitive fiscal and monetary tightening with minimum consideration and understanding of the specific socio-political circumstances of the recipient economies.” (Sussangkarn 2011: 2). The lack of any request to draw upon the CMI facility at the height of the 2008 global financial crisis following the collapse of the Lehman Brothers is a clear reminder of this stigma, given the CMIM’s explicit links to the IMF. Yet, those links are crucial under the current setup, as the CMIM will function only if swap providers feel reasonably assured that any funds lent out will be returned. To be relevant to its stakeholders while addressing the legacy and stigma issues, and also to give creditors confidence, conditionalities for the CMIM facility must therefore be designed to be as flexible and accessible as possible, while safeguarding the pool of funds from moral hazard practices.

So far, the simple, quick-fix solution has been to make use of existing mechanisms via the IMF. By linking any drawing beyond 30% of eligible funds (as of May 2012) implies that countries need to submit to IMF guidelines, which act as a “de facto” conditionality against lax economic policies. While this was acceptable initially for member countries to sign off on their commitments to the CMIM swap arrangement, this is perhaps one of the main reasons why use of the CMIM has so far remained off-limits to its members. This suggests a good case can be made for establishing a framework for conditionality with full CMIM ownership. How then should such a framework be established, to make it more flexible and effective, while at the same time not repeating the shortcomings of global lending frameworks? Borrowing the views of Jomo (2011), successful and effective regional arrangements must be flexible but credible, and capable of effective counter-cyclical macroeconomic management as well as crisis prevention management. In other words, facilities under regional financial arrangements must be large enough to be useful, with related conditionalities that are balanced between being strict enough to protect lenders’ interests and supporting borrowing countries’ economies. Furthermore, such conditionalities would require policy adjustments on the part of the borrowers, which will need to be specified at the outset.

It is useful to draw upon existing models of conditonalities as espoused by the IMF and enhanced over the years. Key characteristics include both the design of the macroeconomic and structural policy recommendations, as well as the tools used to monitor progress towards the goals outlined in those recommendations and plans (IEO Report 2009). According to the IEO Report, conditionalities should be as streamlined as possible, focus on addressing the cause of crisis, and ensure that lent funds would eventually be repaid. In the case of the CMIM, conditionalities may need to focus on macroeconomic stabilization and balance of payments issues, for instance. Conditionalities may also relate to performance criteria which need to be met, in order for funds to be rolled over once they mature. In cases where conditions are unpopular, mechanisms to lock governments into reform programs may be required, although a balance between enforcement and program ownership by the country in question is also crucial.

3.2.1 Learning from the Global Experiences

Why then, would any conditionality be substantially different from the tried-and-tested IMF conditionality? The CMIM is intended to deal with short-term shocks to the economy and the balance of payments. This is reflected in the nature of the CMIM’s facilities, such as shorter activation times and loan maturity. In fact, the CMIM's maturity and supporting period for the IMF de-linked portion is for 6 months and 2 years, respectively, or for 1 year and 3 years, respectively,[6] for the IMF-linked portion.

Let us briefly consider some of the IMF's lending instruments that share similar objectives as the CMIM facilities, in order to draw lessons from how they are set up and from the experience of their use. The IMF maintains an array of facilities, including concessional lending, as well as a whole range of facilities to address an actual or potential balance of payments need. We consider two types of facilities which correspond most closely to the CMIM's IMF-delinked portion and the CMIM's IMF-linked portion—the Rapid Financing Instrument (RFI) and the Precautionary and Liquidity Line (PLL).

The Rapid Financing Instrument is meant to provide rapid financial assistance, with limited conditionality, to any member facing an urgent balance of payments need. The rapid nature of disbursement and limited conditionality means that amounts provided are small; access under the RFI is subject to an annual limit of 50% of quota and a cumulative limit of 100% of quota. In fact, for the IMF's rapid access component (i.e., small emergency loans), low conditionality is the norm; whereas for the high access component (i.e., the bulk of the funds), related conditionalities are needed to focus policies on tackling the underlying shock (Bird 2009) which typically can be resolved only over the medium-term. The similarity of the RFI to the CMIM's IMF delinked portion, both in terms of purpose and characteristics such as maturity, therefore, make the RFI a suitable candidate for comparison. Both facilities are meant to provide rapid financial assistance to member countries that face an urgent balance of payments need. Table 4 compares the available amounts under RFI and 30% IMF de-linked portion. Taking the case of Indonesia, for example, 100% of IMF quota is equivalent to around $3.14 billion. If we look at the CMIM's IMF de-linked portion (30%), this amounts to $6.83 billion. In the case of Thailand, the corresponding numbers are $2.17 billion and $6.82 billion, respectively. While the size of the CMIM's IMF-de-linked portion is double the amount of the IMF RFI, it would still only be useful only for emergency-situation assistance. Therefore, the conditionalities for the CMIM's delinked tranche should be no more stringent than the IMF's RFI.[7]

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[6] This was increased in May 2012, from a maturity and supporting period of 90 days and 1 year for the non IMF-linked portion, and 90 days and 2 years for the IMF-linked portion, previously.

[7] In fact, CMIM may be slightly stricter, as there are a number of ex-ante conditions and conditions precedents which need to be applied to all borrowers, while RFIs are emergency financing and thus condition free.

Table 4: Available Funds under the IMF RFI and the CMIM de-linked Portion

	IMF Quotas USD mn	CMIM (USD mn), total size US$ 240bn	CMIM purchasing multiple	*IMF Rapid Financing Instrument*		CMIM non IMF-linked	
				50% of quota (per year)	100% of quota (cumulative)	20%	30%
Japan	*23,599*	76,800	0.50	11,800	23,599	7,680	11,520
PRC	*14,384*	68,400	0.50	7,192	14,384	6,840	10,260
Hong Kong, China		8,400	2.50	0	0	4,200	6,300
Korea	*5,083*	38,400	1.00	2,542	5,083	7,680	11,520
Indonesia	*3,140*	9,104	2.50	1,570	3,140	4,552	6,828
Malaysia	*2,679*	9,104	2.50	1,339	2,679	4,552	6,828
Philippines	*1,539*	9,104	2.50	770	1,539	4,552	6,828
Singapore	*2,126*	9,104	2.50	1,063	2,126	4,552	6,828
Thailand	*2,175*	9,104	2.50	1,088	2,175	4,552	6,828
Viet Nam	*696*	2,000	5.00	348	696	2,000	3,000
Cambodia	*132*	240	5.00	66	132	240	360
Myanmar	*390*	120	5.00	195	390	120	180
Brunei Dar.	*325*	60	5.00	162	325	60	90
Lao PDR	*80*	60	5.00	40	80	60	90

Brunei Dar. = Brunei Darussalam.

Note: As of June 2012, the official conversion is 1 SDR = 1.51 USD.

Source: IMF, AMRO, based upon authors' calculations.

It may be useful to compare a request for disbursement of the full amount of the CMIM swap facility with the IMF's recently revamped Precautionary and Liquidity Line (PLL)[8], rather than the IMF's Stand By Arrangements (SBA). Objectives and time horizons of the CMIM and the IMF's SBA are different, with CMIM focusing on short-term adjustments than the SBA. The CMIM was designed to be different from the SBA, to avoid the complex SBA programs that had non-core structural components, which added to perceptions that the programs were too cumbersome and implementation lacked even-handedness. The IMF PLL, on the other hand, attempts not only to address the shortcomings of previous programs, but also address the inaccessibility of the more recently established FCL—its qualifying criteria being too strict to allow it to be widely utilized. The PLL also has a wider use, i.e., for actual and potential balance of payment (BOP) needs. As the PLL is similar to the CMIM in terms of flexibility and accessibility of program, thus making it a useful starting point for designing CMIM conditionality.

The PLL uses both ex-ante and ex-post conditionalities, which are similar to the CMIM's original concept, based on the need for conditions precedent as specified in the Chiang Mai Initiative Multilateralisation Agreement, as well as the need for monitoring criteria for ex-post conditions. Furthermore, PLL qualification hinges upon an assessment that the country has sound economic fundamentals and institutional policy frameworks; is implementing (and has a track

[8] The IMF's Precautionary and Liquidity Line (PLL), launched in November 2011, replaced the Precautionary Credit Line (PCL), and provided greater flexibility in its use than the PCL.

record of implementing) sound policies; and is committed to sound policies in the future. Assessment of qualification for the PLL covers 5 broad areas: (1) external position and market access; (2) fiscal policy; (3) monetary policy; (4) financial sector soundness and supervision; and (5) data adequacy. It is no coincidence that the CMIM's decision-making board recently announced that qualification criteria for the CMIM's own crisis prevention function be assessed in these five areas as well. But more importantly, this concept can also be usefully applied to the Crisis Resolution Function of the CMIM.

Having a fixed set of ex-ante criteria (in the five areas listed, for instance) can help improve the timeliness of approval for use of facilities and their disbursement. Setting looser ex-ante criteria in these five areas, with gradually tighter conditionalities, can help a larger number of member countries qualify initially and thus enable them to make use of the CMIM, preventing their exclusion from the beginning. Criteria will need to be country- and case-specific, given huge divergences in the level of economic development among members. In case of the PLL, the IMF indicates that in cases where not all criteria are met ex-ante, there is a case for using that area of vulnerability in guiding the country's ex-post conditions. Furthermore, limiting conditionalities to these five areas would help them to remain focused and streamlined, and more likely to be relevant with the shocks in question, as these are probably the likely sources of BOP problems. However, as far as the potential use of CMIM is concerned, the source of shocks can come from other problems as well.

However, there are clear conditions where the PLL will not apply, effectively precluding certain situations. Such conditions are: (1) a sustained inability to access international capital markets, (2) a need for large macroeconomic or structural policy adjustment, (3) a public debt position that is likely to be unsustainable in the medium-term, or (4) widespread bank insolvencies. In the case of the CMIM, while specific conditions may need to be waived in the case of crisis resolution functions, such as the need for sustained access to international capital markets, other situations such as public debt issues may need to be retained. This would be necessary to prevent the facilities from being used beyond their specified mandate of tackling BOP difficulties.

A mix of both ex-ante and ex-post conditions should be used together in designing the conditionality structure in a holistic and streamlined way. In this case, using ex-ante conditionality in the form of pre-qualification criteria can help play a role in reducing potentially complex and unnecessary ex-post conditionality. This is one aspect of speeding up the decision-making process, as well as facilitating the follow-up process. The pre-qualification criteria will focus on dealing with the most likely problems and shocks, which by nature should be short-term. These would include conventional macroeconomic conditionalities, as well as other short-term indicators involving financial markets, for instance. As in the IMF PLL, structural targets and structural performance criteria have no role to play in such conditionalities; if they do (requirements for financial sector reform being a case in point), the sources of the problems are likely to be beyond what the CMIM can effectively tackle.

A degree of flexibility in the conditionalities—which can be adjusted according to country performance—should be more conducive to promoting national ownership of strong and effective policies. The argument is that only with national ownership will such reforms be implemented. In the light of concerns about whether the ASEAN+3 community would be able to coerce peers into difficult reforms, national ownership of such policies is vital. To further streamline the process and improve efficiency, the IMF's Independent Evaluation Office (IEO) in its review of IMF conditionalities recommended that a notional cap on the number of conditionalities could be set, at 4–5 per year, and these should be restricted to areas of core competency (IEO 2007). This can perhaps be considered in the CMIM context to minimize the number of conditionalities that a country will need to observe. However, this provision can be subject to caveats that more conditionalities may be added, if required, on a case-by-case basis.

4. AMRO: CONDUCTING INTEGRATED SURVEILLANCE

The attainment of an effective CMIM strongly depends on the credible surveillance work of AMRO. This message has been repeatedly pointed out at the numerous semi-annual meetings of deputies. AMRO can learn from other institutions that undertake surveillance, such as the IMF, with its vast experience in global economic and financial surveillance. In this section, we discuss AMRO's current work process on economic surveillance, and make suggestions about how to improve AMRO's surveillance capacity. Takagi (2010) proposes a set of features and characteristics underpinning sound surveillance work. One of them, and arguably the most urgent one for AMRO, is the necessity to establish a centralized and integrated surveillance approach. Yet, before moving into a detailed discussion on the infrastructure needed to carry out integrated surveillance work at AMRO, the next sub-section presents some of the key features of the ASEAN+3 economies, highlighting their openness and interconnectedness with other economies.

4.1 Trade and Financially Integrated Economies

Trade integration of the ASEAN+3 economies with their global partners may vary, but it is clearly significant. On average, between 13 and 14% of total exports of individual ASEAN+3 economies were shipped to traditional markets such as the United States (US) in 2011 (Table 5)[9]. The emergence of the PRC as a major hub of the production networks in Asia contributed significantly to the rapid rise of intra-regional trade among the ASEAN+3 economies. Major ASEAN economies, such as Indonesia, Malaysia, Thailand, and Singapore, sent more of their exports to the PRC than to the US and the European Union (EU) in 2011. Furthermore, Japan continued to be an important trading partner for the emerging markets of the ASEAN+3 economies. In 2011, a resilient intra-regional export performance cushioned the impact of falling exports to Europe and the US on the overall export activities of the ASEAN+3 economies.

Following the intensification of trade integration in the 1980s and 1990s and with the liberalization of the financial sectors in many parts of the ASEAN economies, financial market integration has deepened and widened. There has been an increasing complementary between foreign direct investment (FDI) and trade, especially as the result of growing fragmentation of production combined with the creation of distribution networks spanning within the ASEAN economies and across to other parts of Asia and the world. As in the case of trade activities, total FDI into the ASEAN economies dropped in 2009, but recovered strongly and grew at a rate of around 100% in 2010 (Table 6). A large portion of total FDI came from outside the region. In fact, extra-ASEAN direct investment was nearly five times as high as intra-ASEAN investment. However, intra-ASEAN investment was only second to total investment from the EU, contributing to about 16% of total FDI to the region in 2010 (Table 7). This highlights the importance of direct investment between countries within the region. It is also worth highlighting that investment from the Asian economies (ASEAN, Japan, Korea, the PRC, and India) made up close to 40% of total FDI to the region in 2010.

[9] This average excludes Brunei Darussalam and Myanmar.

Table 5: Shares of Export Destinations

(%)

	EU	GIIPS*	France	Germany	Greece	Ireland	Italy	Portugal	Spain	UK	US	PRC	Japan
Brunei Dar.	**0.08**	**0.01**	**0.01**	**0.01**	**0.00**	**0.00**	**0.01**	**0.00**	**0.00**	**0.05**	**0.21**	**4.62**	**45.64**
Cambodia	**26.62**	**5.16**	**1.78**	**8.16**	**0.09**	**0.29**	**2.10**	**0.06**	**2.61**	**7.90**	**41.46**	**2.73**	**4.56**
PRC	**18.75**	**3.28**	**1.58**	**4.03**	**0.21**	**0.11**	**1.78**	**0.15**	**1.04**	**2.32**	**17.09**	**-**	**7.82**
Hong Kong, China	**10.77**	**1.52**	**1.19**	**2.67**	**0.04**	**0.07**	**0.89**	**0.06**	**0.46**	**1.76**	**9.92**	**52.32**	**4.05**
Indonesia	**10.09**	**2.92**	**0.63**	**1.62**	**0.08**	**0.04**	**1.56**	**0.06**	**1.19**	**0.85**	**8.09**	**11.27**	**16.57**
Japan	**11.62**	**1.23**	**0.97**	**2.86**	**0.04**	**0.11**	**0.65**	**0.06**	**0.38**	**1.99**	**15.28**	**19.68**	**-**
Korea	**10.04**	**1.51**	**1.03**	**1.71**	**0.24**	**0.06**	**0.74**	**0.13**	**0.33**	**0.89**	**10.12**	**24.17**	**7.15**
Lao PDR	**9.47**	**1.08**	**0.57**	**2.41**	**0.00**	**0.08**	**0.66**	**0.09**	**0.25**	**3.21**	**1.85**	**24.64**	**2.98**
Malaysia	**10.36**	**0.99**	**1.16**	**2.65**	**0.04**	**0.08**	**0.52**	**0.07**	**0.28**	**1.03**	**8.29**	**13.14**	**11.51**
Myanmar	**2.29**	**0.50**	**0.03**	**0.81**	**0.00**	**0.00**	**0.08**	**0.00**	**0.42**	**0.61**	**0.00**	**16.34**	**5.77**
Philippines	**12.85**	**0.99**	**0.89**	**3.60**	**0.03**	**0.05**	**0.60**	**0.03**	**0.28**	**0.83**	**14.76**	**12.70**	**18.46**
Singapore	**9.35**	**0.68**	**1.49**	**1.64**	**0.23**	**0.09**	**0.24**	**0.03**	**0.11**	**1.62**	**5.37**	**10.42**	**4.49**
Thailand	**10.15**	**1.52**	**0.79**	**1.58**	**0.07**	**0.12**	**0.78**	**0.07**	**0.47**	**1.63**	**9.18**	**11.51**	**10.11**
Viet Nam	**16.90**	**3.62**	**1.75**	**4.37**	**0.12**	**0.06**	**1.68**	**0.13**	**1.63**	**2.26**	**17.63**	**10.61**	**11.07**

Brunei Dar. = Brunei Darussalam

Note: * Greece, Italy, Ireland, Portugal, and Spain.

Source: IMF-DOT database and National Authorities.

Table 6: Foreign Direct Investment Net Inflow (in US$ million)

	Intra-ASEAN			Extra-ASEAN		
	2008	**2009**	**2010/p**	**2008**	**2009**	**2010/p**
Brunei Dar.	0.9	3.2	89.6	238.3	366.5	539.9
Cambodia	240.9	174.0	349.0	574.3	365.1	433.6
Indonesia	3398.0	1380.1	5904.2	5920.1	3496.7	7400.1
Lao PDR	47.7	57.3	135.4	180.1	261.3	197.2
Malaysia	1645.5	(269.7)	525.6	5602.9	1650.7	8630.2
Myanmar	103.5	19.5	-	872.1	559.1	-
Philippines	139.9	(4.9)	(7.8)	1404.1	1967.9	1720.8
Singapore	659.5	2108.3	3377.0	7929.4	13170.7	32143.2
Thailand	508.4	1326.0	433.6	8031.0	3649.6	5886.1
Viet Nam	2705.0	428.7	1300.9	6874.0	7171.3	6699.1
Total	**9449.3**	**5222.5**	**12107.5**	**37626.3**	**32658.9**	**63650.2**

Brunei Dar. = Brunei Darussalam

Source: ASEAN Secretariat Database; p/ = preliminary number.

Table 7: Top Five Sources of Foreign Direct Investment Inflow to ASEAN

	Value			Share to Total Inflow		
	2008	**2009**	**2010/p**	**2008**	**2009**	**2010/p**
EU	7010.1	9112.9	16984.1	14.9	22.4	20.6
ASEAN	9449.3	5222.5	12107.5	20.1	13.8	16.0
US	3517.5	4086.7	8578.1	7.5	10.8	11.3
Japan	4129.4	3762.6	8386.1	8.8	9.9	11.1
Korea	1595.7	1471.5	3769.4	3.4	3.9	5.0

p/ = preliminary number.

Source: The ASEAN Secretariat

In equity markets, ASEAN investors, like their counterparts in the rest of the Asian region, have tended to invest and diversify their portfolios outside the region, and mainly in North American and European financial markets. In fact, only about 12% of the flow of foreign portfolio investment of Asian investors in 2006 found their way into Asian financial markets, whereas about two-thirds of the foreign portfolio investment of EU investors were invested in the EU itself (Shanmugaratnam 2006). Eichengreen and Luengnaruemitchai (2006) found that this can in part be explained by the lower level of economic development, the lack of a common language, and fewer shared land borders in the region. However, intra-ASEAN portfolio investment has picked up pace in the post-2008 crisis period. Total portfolio investment from Malaysia to major ASEAN-4 economies (Indonesia, Philippines, Thailand, and Singapore) for instance, was estimated to be around $11.2 billion, or more than 17 times the 2001 level.

The interconnectedness of the ASEAN economies will be further strengthened by the globalization of the banking sector. A recent survey carried out by the SEACEN Centre identified a number of regional and global banks with a strong presence in major Asian economies (Siregar and Lim 2010). Table 8 lists those major banks ranked by asset size. The Hong Kong Shanghai Banking Corporation (HSBC), Citibank, and Standard Chartered Bank are the three major international banks that have wide and extensive branch networks in the Asian region. In addition to these three international powerhouses, the region has also witnessed the emergence of its own multinational banks. Malaysian banks such as the Malayan Banking Berhad (Maybank), Commerce International Merchant Bankers Berhad (CIMB), and Rashid

Hussain Berhad (RHB) have expanded their networks into the Southeast Asian economies and beyond. A number of Singaporean banks, namely the Development Bank of Singapore (DBS), the United Overseas Bank (UOB), and the Overseas Chinese Bank Corporation (OCBC) have achieved similar success in their efforts to become regional banks.

Table 8: Cross Border Regional Banks in ASEAN and Other Asian Economies

Economy	**Top 3 domestic FIs in the jurisdiction that has significant presence in the region**	**Top 3 foreign FIs in the jurisdiction that originates from SEACEN member economies**	**Top 3 other foreign FIs (apart from originating from SEACEN member economies) that have significant presence in that economy**
Brunei Darussalam	The domestic banks have a presence only within the country	- Maybank (Malaysia) - UOB (Singapore) - RHB Bank Berhad (Malaysia)	- Citibank - HSBC - Standard Chartered Bank
Indonesia	- Bank Mandiri - Bank BRI - BCA	- CIMB Niaga (Malaysia) - Bank International Indonesia (MayBank Malaysia controls around 43%)	- Citibank - HSBC - Standard Chartered Bank
Korea	- None	- DBS (Singapore) - UOB (Singapore) - OCBC (Singapore)	- Citibank - HSBC - Standard Chartered Bank
Malaysia	- Maybank - CIMB Group - Public Bank	- OCBC (Singapore) - UOB (Singapore) - Bangkok Bank (Thailand)	- Citibank - HSBC - Standard Chartered Bank
Papua New Guinea	- Bank South Pacific	- Maybank (Malaysia)	- ANZ Bank (Australia) - Westpac Bank (Australia)
The Philippines	- Metropolitan Bank Corporation (Metrobank) - Philippine National Bank (PNB)	- China trust (Taipei,China) - Maybank (Malaysia) - Korea Exchange Bank (Korea)	- Citibank - HSBC - Standard Chartered Bank
Singapore	- DBS Bank Limited - OCBC - UOB	- Maybank (Malaysia) - Bangkok Bank (Thailand) - RHB Bank (Malaysia)	- Citibank - HSBC - Standard Chartered Bank
Taipei,China	- Bank of Taiwan[10] - Taiwan Cooperative Bank[11] - Mega International Commercial Bank	- DBS (Singapore) - OCBC (Singapore) - Bangkok Bank (Thailand)	- Citibank - HSBC - Standard and Chartered Bank
Thailand	- Bangkok Bank - Kasikorn Bank - Siam Commercial Bank	- UOB (Singapore) - CIMB Thai (Malaysia) - OCBC (Singapore)	- Citibank - HSBC - Standard Chartered

Source: Siregar and Lim (2010).

[10] A commercial bank in the ADB member referred to as "Taipei,China".

[11] A commercial bank in the ADB member referred to as "Taipei,China".

4.2 Capacity Building towards an Integrated Surveillance Office

Given the openness and interconnectedness of the trade sectors and the financial sectors of the ASEAN+3 economies, well-integrated surveillance work at AMRO must encompass two areas of coverage: a) bilateral and multilateral surveillance; and b) macroeconomic and financial sector surveillance. By a simple definition, bilateral surveillance focuses more on an individual economy, whereas multilateral surveillance takes more global and regional perspectives. This importance of such an integrative approach to surveillance has become more apparent especially following the recent 2007/2008 global financial crisis, where strong linkages between these areas of coverage were seen. The G-20 Summit in November 2008, for instance, strongly urged the IMF to give "greater attention to … the financial sector" and better integrate "the reviews with the joint IMF/World Bank financial sector assessment programs [with a view to strengthening] the role of the IMF in providing macro-financial policy advice."[12]

Given AMRO's relatively small size and budget compared with other multilateral surveillance offices, AMRO needs to carefully leverage upon the benefits and synergies of being a small office in close contact with regional policymakers. Under the present arrangement whereby AMRO economists are involved in production of all major products of the institution, namely the AMRO Regional Economic Monitoring (AREM) report (covering cross-country economic outlook and multilateral surveillance), individual economic surveillance reports (often referred to as bilateral surveillance), and thematic research reports under each area study unit, an integrated surveillance process has naturally been established. As a small office, AMRO benefits from a close working arrangement among economists ensures a free flow of knowledge across different areas of expertise and work, allowing for a rich interaction of analysis between multilateral and bilateral surveillance[13].

Another advantage of the present set-up derives from the direct access AMRO has to senior officials in member countries. While critics are quick to criticize the non-public nature of the current peer-review process, it yields several benefits when compared to a completely public process. Providing confidential advice and constructive criticism of policies at the highest official levels throughout the year, rather than making criticism publicly, avoids the creation of barriers to effective communication and cooperation with country authorities. This has benefited AMRO's surveillance work, with authorities being more receptive to our analysis and more frank in discussions.

Furthermore, AMRO's surveillance process has tried to address the shortcomings of policy dialogue processes of the past. First, AMRO's surveillance reports are submitted on a quarterly basis directly to senior officials of the ministries of finance and the central banks. . Twice a year, in March and December, these reports are presented and discussed during the meetings of vice ministers of the Ministries of Finance and deputy governors of the central banks of the ASEAN+3 economies. The surveillance reports are submitted only a week ahead of these high-level official meetings. Such a practice allows a frank discussion of issues without the usual revision and and pre-screening of controversial issues, which has been common in regional and international policy dialogue, and a hindrance to effective policy dialogue in the past. Second, AMRO surveillance reports and analysis are presented directly to the high-level policy makers in charge of relevant areas.. Third, not publishing reports and surveillance results can foster an environment more conducive to an exchange of views and perspectives between the AMRO

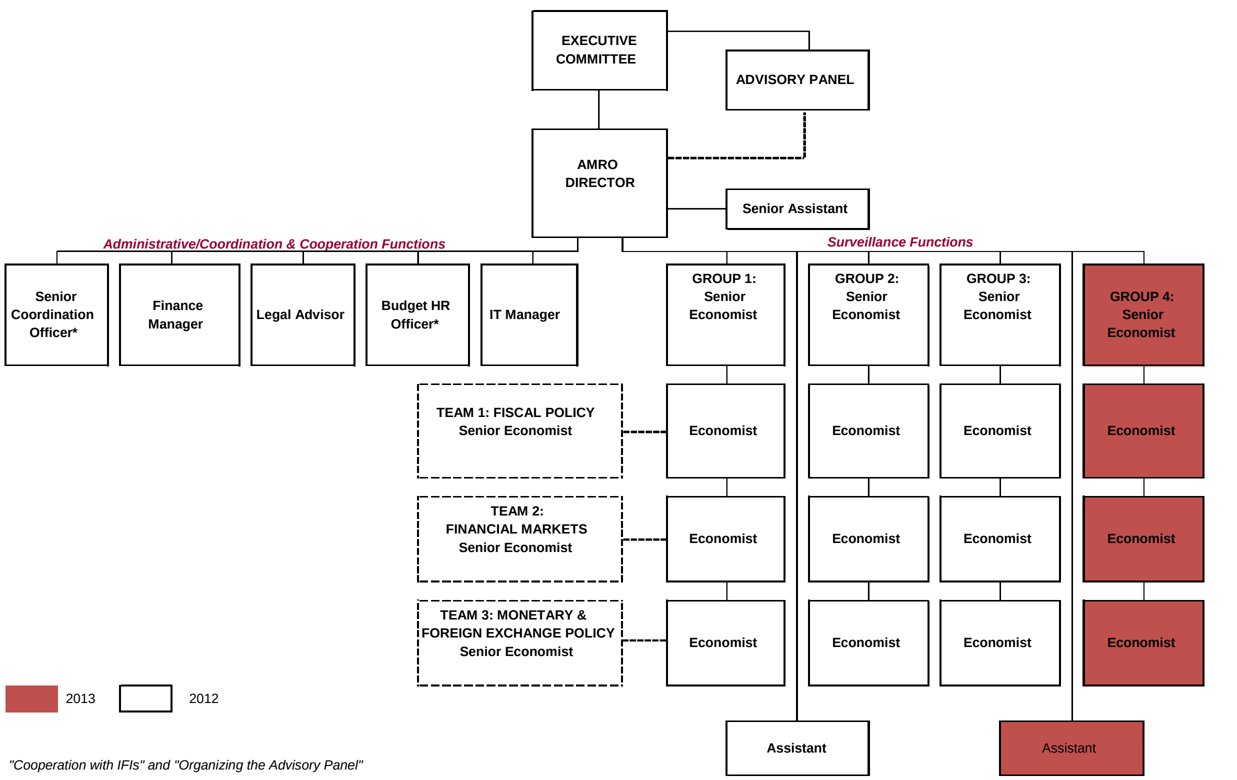
[12] G-20 Summit Declaration on Financial Markets and the World Economy, Washington, DC, 15 November 2008.

[13] As discussed in Takagi (2010), the area departments of the IMF work on individual country (bilateral) surveillance, whereas the research department focuses on multilateral surveillance.

team and the members' policymakers in a setting where authorities are more receptive and open to frank discussions and criticism, an often overlooked particularity of Asian culture. Fourth, the non-publication process also facilitates timely dissemination of the reports to all member countries' officials, and prevents delays arising from requests for revision by the relevant country's authorities.

A number of improvements should be considered to further strengthen the vital surveillance work at AMRO. The most urgent one is to strengthen research capacities to support the surveillance team. As briefly discussed and shown in Figure 1, three teams of economists were established at AMRO in the first half of 2012. The focus of each team was largely on bilateral macroeconomic surveillance. Each economist is assigned to either one or two economies and his or her main day-to-day duty is to closely monitor developments in those economies, focusing especially on areas of potential risks and vulnerabilities. Each economist is also assigned an area study unit on either fiscal matters; monetary and exchange rate matters; or financial markets. So there are two units of economists at AMRO: the country surveillance unit (indicated as Groups 1–3 in Figure 1) and the area study unit. The area-study unit in particular needs to be further developed and staffed strategically with experts and experienced professionals in each area.

Figure 2: AMRO's Organizational Structure as of July 2012



Source: AMRO

A major weakness often highlighted in bilateral surveillance work is that analyses tend to focus too narrowly on the domestic economy and less on external factors, such as other regional economies and global financial markets. Hence, bringing on-board external and cross-country analyses into the country surveillance is critical and undoubtedly requires research support on the various pertinent and topical issues. The main responsibility of the economists in the area study unit is to carry out cross-country research on various thematic topics relevant to macroeconomic surveillance work on the ASEAN+3 economies.[14] The high degree of interconnectedness of the banking sector of some of the ASEAN+3 economies, for instance, suggests a need to look into cross-border banking activities and carry out a comprehensive surveillance on the financial sectors of these economies. In this case, the primary responsibility of the area study unit would be to prepare an in-depth study of these globalized banking sectors to map, in particular, potential transmission channels of financial shocks from the banking sector arising from the activities of the global banks and regional ASEAN+3 banks. Recognizing the importance of the financial stability risk, around 25% of the content of AMRO Regional Economic Monitoring (AREM) reports has dealt with this issue. Moreover, the first thematic research carried out by the AMRO team is on the topic of a financial stress index. Acknowledging that the financial sectors of most ASEAN+3 economies are still dominated by banking, AMRO's second thematic study assessed the features, characteristics, and implications of the globally interconnected banking sectors of these economies.

Given resource constraints, particularly in terms of personnel, as discussed earlier, it has been frequently suggested that AMRO should rely a lot more on the research and surveillance works carried out by global and national agencies, especially in the areas of multilateral surveillance (cross-country issues). Since the beginning of AMRO's surveillance work, there have been continuous engagements between AMRO's team of economists and their counterparts in multilateral agencies (e.g., IMF, ADB, World Bank, OECD), investment banks, universities, and research institutions. During their consultation visits to the ASEAN+3 economies, AMRO's team visits representative offices of the global and regional multilaterals. AMRO economists have also hosted members of the IMF Article IV teams in their Singapore office and compared notes on the relevant economies. Such engagement, however, has been undertaken on on a cooperative and unofficial basis; more official interaction which would entail joint-surveillance work, for instance, would need to be approved by the CMIM Executive Committee. Despite such interaction, AMRO must build its own research and expertise capacities. One challenge relates to the timeliness of information. Surveillance reports from other agencies tend to become available when they are already out of date for surveillance purposes. This has been especially true since the turbulent times the world economy has experienced from 2007–2008, with the economic and financial landscape changing on a daily basis.

5. BRIEF CONCLUDING REMARKS

The 2007–2008 global financial crisis has undoubtedly been a catalyst for the transformation of the CMI into the CMIM and the establishment of the ASEAN+3 Macroeconomic Research Office (AMRO). Considering that the CMIM was only established in 2010, the progress achieved within a period of only two years is testimony to the strong commitment of the ASEAN+3 governments to strengthening regional financial cooperation. Alongside these accomplishments, however, significant questions on how to improve the effectiveness of the CMIM and AMRO remain, particularly on their capacities to become a regional financial safety net and credible surveillance unit for the ASEAN+3 economies.

Critics of the CMIM often dwell on the limited size of the available swap facility of only $240 billion and other potential impediments to its effectiveness, such as limited resources for surveillance and limited experience with conditionalities. This paper discussed some of these potential weaknesses and offers concrete solutions to overcome them. In particular the paper underlines the need and the route to integrate the CMIM's multilateral swap facility with those of

[14] Such an area study unit does not need to be large. At the early stage, 3-4 experienced economists should be the minimum size and as AMRO continues to grow the number should be increased.

the bilateral facilities. The important issue of ex-ante and ex-post conditionalities has also been deliberated upon and lessons from the global experiences on designing conditionalities are considered for the disbursement of the CMIM facility. As far as the surveillance work at AMRO, creating an integrated surveillance process takes a center stage of discussion in the paper.

In a nutshell, the CMIM has the strong support of ASEAN+3 governments and is the manifestation of these governments' pragmatic views on the need to build stronger regional financial cooperation, to as much as possible ring-fence their economies from shocks originating globally and from within the region. This commitment has provided a solid base for the early and future development of AMRO. While the resources at AMRO will not be as large as that of the regional and global multilateral surveillance offices such as the Asian Development Bank and the International Monetary Fund, this paper touches on a number of advantages that AMRO can exploit to add values to the surveillance works on the economies of the region. Nevertheless, the CMIM and AMRO have to optimize the present momentum and opportunities to strengthen institutional capacities and thus to realize the visions of their founding fathers.

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