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WHITHER FINANCIAL REGIONALISM AMONG ASEAN+3

Having experienced a major crisis in 1997-98, several regional cooperative arrangements in finance were designed by ASEAN+3 to mobilize collective responses to cope with major financial crises. While the current global financial crisis poses a serious challenge to the adequacy of existing regional mechanisms and institutions for crisis prevention and management, it provides a good opportunity for ASEAN+3 countries to press for more legitimacy of the global financial arrangements. In the absence of an effective global solution, the West now place their hope in the key member states of the ASEAN+3 collective action to mitigate the severity of the impending global recession. Can ASEAN+3 rise to the expectation? In view of the magnitude of the crisis as well as weaknesses of the existing regional financial cooperation, it remains to be seen what impact the current global financial turmoil would have on financial regionalism between ASEAN and the 'plus three' countries - China, Japan and South Korea. Whether an effective global solution is emerging is the central issue and one which will determine the future direction of East Asian financial regionalism. This further raises the question of whether financial regionalism is still relevant. An attempt is made in this article to address these issues.

Keywords: *ASEAN+3, Financial regionalism, financial crisis, international financial architecture, financial governance*

Introduction

Having experienced a major crisis in 1997-98, several regional financial and monetary cooperative arrangements (simply referred to as financial regionalism) were designed by ASEAN+3 to mobilize collective responses to cope with major financial crises. The painfully slow progress of reform of the international financial architecture that includes the prevention, management, and resolution of financial crises in a timely and effective manner, as well as the failure of international organizations, particularly the International Monetary Fund (IMF) to foresee the crisis and effectively deal with it led to renewed calls for some kind of regional cooperation in the monetary and financial spheres. These include the series of bilateral swaps and repurchase agreements

under the Chiang Mai Initiative (CMI), the Asian bond market and Asian Bond Fund (ABF), as well as regional and multilateral surveillance. While there are a few policy options at the national level of financial governance to deal with financial globalization with its huge, volatile capital flows, namely, exchange rate management, prudential regulations, and capital controls, Chin (2006: 67-68) argues, for various reasons, that these measures need to be accompanied or supplemented by greater monetary and financial cooperation among monetary authorities in the region.

Nevertheless, the US subprime crisis that has blown into a full-scale global financial crisis poses a serious test on the adequacy of the existing regional mechanisms and institutions for crisis prevention and management. In the absence of an effective global solution, the West now place their hope in the key member states of the ASEA+3 collective action to mitigate the severity of the impending global recession. Can ASEAN+3 rise to the expectation? In view of the magnitude of the crisis as well as weaknesses of the existing regional financial cooperation, it remains to be seen what impact the current global financial turmoil would have on financial regionalism between ASEAN and the 'plus three' countries-China, Japan and South Korea.

The next section of this paper begins with a brief review of recent developments of financial regionalism in the context of reforms of the international financial architecture from the onset of the 1997-98 East Asian financial crisis to 2008 when the global financial crisis began in mid September with the collapse of Lehman Brothers. In the following section, the paper examines the impact of the ongoing global financial crisis on efforts to establish a 'new' global financial order. Whether a global solution is emerging is the central issue and one which will determine the future direction of East Asian financial regionalism. This further raises the question of whether financial regionalism is still relevant. The final section of the paper provides some concluding remarks on these issues.

Financial Regionalism Among ASEAN+3 Since The East Asian Crisis

In the aftermath of the East Asian financial crisis in 1997, the region's leaders – and Malaysia's voice was among the loudest – called for an overhaul of the international financial architecture in the wake of systematic speculative attacks on their markets and currencies. The calls initially went unheeded because the more powerful and influential countries simply thought that the Asian financial crisis was, well, Asian. Consequently, the crisis prompted several East Asian leaders to take more serious initiatives to guard themselves against future crises, and to attain financial stability in the region. At the IMF annual meeting in Hong Kong in September 1997, Japan proposed to establish an Asian Monetary Fund (AMF), that is, a 100 billion US dollar fund aimed at providing trade finance and balance of payments support to assist the crisis economies in the region. While the proposal was supported by most of the

ASEAN countries, Japan's pursuit of an AMF independent of the United States' influence drew strong objection from both the United States and the IMF. Their opposition was based on the premise that an AMF will lead to a moral hazard problem and duplicate the IMF functions. Failure to invite the regional key powerhouses, particularly China, for discussion before the AMF proposal also caused some countries to be suspicious of Japan in dominating the AMF in a manner similar to the United States domination of the IMF. Eventually, the Japanese proposal was aborted.

The latter half of 1998 saw a sudden change in the global economic environment. What was perceived earlier as a regional crisis now appeared to spread beyond East Asia, as financial turmoil spread even further to Russia and Brazil in August 1998, and the near bankruptcy of Long Term Capital Management (LTCM) – a hedge fund based in New York – surfaced in September. When the global financial disorder threatened the United States' stock market boom and economic stability, it appeared that the US policy rapidly shifted away from stringently imposing structural reform through IMF conditionality on crisis-stricken countries, in line with the Washington consensus, to giving priority to stabilization by opening public credit lines.

It is in this new context that the idea of establishing a framework that did not rely on the involvement of the US resurfaced in a variety of forms thereafter. A new Japanese proposal, the New Miyazawa Initiative (NMI), which was presented during the annual meeting of the IMF and World Bank in October 1998, did not meet the similar fate of the AMF proposed a year earlier. As noted by Tadokoro (2003, p. 232):

The US, in sharp contrast to its attitude towards the AMF, warmly welcomed the new Japanese proposal. The American endorsement of the Japanese proposal seemed to be a quid pro quo for Japanese support for a new short-term facility established within the IMF to bail out Latin American countries. With a financial crisis looming large in Latin America, the US Congress also finally agreed on the appropriation of $18 billion for an IMF capital increase.

The NMI was basically a package of bilateral assistance totalling 30 billion dollars from Japan, mainly in the form of loans and credit guarantees to help revive the countries hit by the crisis. It complemented the IMF assistance in countries having IMF programmes in place. In countries where IMF programmes were not in place, it substituted for IMF aid rather than supplementing it. In 1999, the NMI was expanded beyond loans and credit guarantees, to include the establishment of backup facilities, in the form of currency swap agreements, with the central banks of South Korea and Malaysia (Amyx, 2002).

The NMI was seen as an initial step towards the revival of the notion of an AMF (Amyx, 2002). While welcoming a greater leadership role for Japan, the ten ASEAN countries at the same time hoped that Japan would consult

more actively with regional leaders, to ensure that the region's concerns are reflected in the process. An informal regional grouping known as ASEAN+3[1] was formed when Japan, China, and South Korea were invited to their summit meeting in 1997 in Kuala Lumpur. Starting from 1999, this emerging regional grouping has gathered its momentum when it expanded the level of cooperation between its member countries to include an annual Finance Ministers meeting held in parallel with the annual Asian Development Bank (ADB) meeting of the board of governors (Amyx, 2002).

The following ASEAN+3 Finance Ministers meeting in Chiang Mai in May 2000 came up with a framework to increase the availability of liquidity through swap lines as defense against future currency crises. This framework, known as the Chiang Mai Initiative (CMI), involves:

1. The expansion of the existing ASEAN Swap Agreement (ASA) among the prior member countries of ASEAN to all its ten member countries, and enlargement of the funds in this network to one billion dollars.
2. The setting-up of a network of bilateral currency swap agreements (BSAs) that included Japan, China, and South Korea.

As a result, the CMI, in principle, provides for 33 BSAs to be negotiated: 30 agreements between each of the three North-East Asian countries and each of the ten ASEAN member countries, plus three agreements among the three North-East Asian countries themselves. As Table 1 shows, only 16 BSAs have been signed or are currently being negotiated among ASEAN+3 nations since 2001, collectively amounting to 36.5 billion dollars.[2] This framework provides short-term financial assistance in the form of swaps[3] to member countries facing short-term liquidity problems. Supplementing rather than replacing the existing international financial arrangements, countries that draw more than 10 per cent under their swap arrangements must have an IMF-supported programme in place.

As an effective regional surveillance mechanism is important to the working of the CMI arrangement, the ASEAN+3 finance forum adopted new mechanisms in order to enhance the surveillance processes under the CMI arrangement. These included deepening and broadening the exchange of economic reviews and policy dialogues among the ASEAN+3 countries, and strengthening regional capital-flow monitoring through data exchange and assessments of developments among members, and the training of personnel needed for these exercises.

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1 ASEAN+3 is composed of the Association of South-East Asian Nations (ASEAN) plus the People's Republic of China (henceforth China), Japan, and South Korea.

2 This amount is based on the overall availability under the BSAs, where the maximum drawing amount under two-way swap arrangements is counted twice to reflect the swap amount available to both parties under the agreement.

3 A currency swap is an agreement to exchange one currency for another and to reverse the transaction in the future (see Henning, 2002, p. 16, box 3.1).

Notwithstanding this progress, three dimensions of the CMI make it fall short of being a functional equivalent to the aborted AMF (Amyx, 2004). First, the amounts involved under the CMI remain small and insufficient for stopping speculative attacks. Secondly, the release of 90 per cent of the funds in the BSAs is subject to recipient countries already having an IMF programme in place. Thirdly, the arrangements remain bilateral rather than multilateral.

Nevertheless, as pointed out by Katada (2009: 10), "the current global financial crisis after the collapse of Lehman Brothers of September 2008 helped the multilateralization of the CMI by making the leading countries compromise on and commit to a common regional goal". Given the magnitude of the crisis, existing regional mechanisms and institutions for financial crisis management were grossly inadequate. Although South Korea was the first to be hit by the global crisis as its economy had been experiencing a major capital outflow since the onset of the financial crisis, it did not attempt to make use of the CMI to prevent a crisis from unfolding as the size of the CMI is still too small. The Korean economy has accumulated large short-term foreign currency debts which could easily turn into outflows and hence, depres the won rapidly. In the face of such vulnerability, South Korea's President pushed for expanding the foreign currency swap deals by proposing a trilateral meeting of finance ministers of the 'plus three' countries in early October 2008 as well as establishing a currency swap deal with the U.S. Federal Reserve System in the same month (Hara, 2008).

Shortly after the onset of the global financial crisis, the 'plus three' countries held their unprecedented trilateral meeting ahead of the 14th ASEAN Summit. The trio agreed to work together with ASEAN to speed up the multilateralization of the CMI to further boost currency swaps in East Asia. Besides, the trilateral summit endorsed South Korea's recent currency-swap deals with Japan and China totaling $60 billion (*The Korea Times*, 12 December 2008). Setting aside their past historical issues and territorial disputes that can instantly stir intense public hostility, the 'close-yet-distant' neighbors meet to discuss measures to deal with the crisis. This will pave the way to a regular trilateral summit which "could gradually eliminate the deep-seated reservations amongst the big three in the region. They have been an obstacle to the speedy progress with regional cooperation" (Soesastro, 2009). Also, the trilateral cooperation may have been helpful in strengthening their collective partnership with ASEAN, as pointed out in an interview with Masahiro Kawai:

"Japan and China have always been keen on strengthening ties with ASEAN, while South Korea has been slow in doing so. Furthermore, among the numerous bilateral ties that have been formed so far, the one between Japan and China has been the weakest. In that sense, it is quite significant that the Plus Three leaders came together to issue a statement to promote trilateral financial cooperation, as this can reinforce ASEAN Plus Three cooperation" (Hara, 2008).

Calls for the multilateralization of the CMI to be expedited came as the East Asian export-led growth has been thrust into chaos by the global downturn. The belief that Asia, led by a booming China and India, might somehow "decouple" from its reliance on the American and European market turned out to be a myth. The ASEAN+3 leaders got together to chart the necessary action to protect their own interests. In late February, before the 14th ASEAN Summit, the 13 finance ministers of the ASEAN+3 agreed to expand the existing reserve pool plan from $80 billion to $120 billion as the need to restore financial stability became more pressing. They will discuss in April the fund's rules (including the conditions for using the fund, the setting up of a surveillance unit that will monitor the economic situation in the region and provide an early warning to members) in order to expedite the multilateralization of the CMI. In principle, Thailand, Malaysia, Singapore, Indonesia and the Philippines will each contribute equally to make up 20 per cent of the emergency credit pool, while smaller economies will contribute less, The remaining 80 per cent will be shared by the 'plus three' nations of ASEAN (*The Nation* - Thailand, 3 March 2009).

Regional financial cooperation went a step further when the proposal for the formation of an Asian bond market garnered strong support from leaders and central bankers in the region. In June 2003, the Executives' Meeting of East Asia–Pacific central banks (EMEAP), comprising 11 central banks and monetary authorities in the East Asia and Pacific region,[4] jointly launched the one billion dollar Asian Bond Fund to invest in US dollar sovereign and quasi-sovereign bonds issued in EMEAP countries (except Australia, New Zealand, and Japan). While the ABF addresses the demand side challenges, the Asian Bond Market Initiative (ABMI), which was later launched in the same year by the ASEAN+3, addresses the supply side issues by providing the necessary infrastructure for a well-functioning regional bond market. Six working groups have been set up, each addressing a key area for local currency bond market development (Asian Development Bank, 2004).[5] A focal group has also been established to coordinate and monitor the work of the six working groups. Following the successful launch of the first ABF, the EMEAP launched the second ABF (ABF2), amounting to two billion dollars, to invest in the local currency bond markets in the region (Asian Development Bank, 2005). Half of this amount was allocated to the Pan-Asia Bond Index Fund (PAIF)[6] and

4 The countries involved are Indonesia, Malaysia, Thailand, the Philippines, Singapore, China, Hong Kong, Japan, South Korea, Australia, and New Zealand.

5 The six key areas include new securitized debt instruments, credit guarantee and investment mechanisms, foreign exchange transactions and settlement issues, issuance of bonds denominated in local currencies by multilateral development banks, foreign government agencies, as well as Asian multinational corporations, rating systems and dissemination of information on Asian bond markets, and technical assistance coordination.

6 PAIF is a single bond fund index investing in sovereign and quasi-sovereign local currency-denominated bonds issued in eight EMEAP countries.

the balance for the Fund of Bond Funds (FoBF),[7] distributed to eight single-market domestic currency funds.

Although the idea was not new, previous efforts to develop an Asian bond market as an avenue for channelling Asian capital toward regional financing did not succeed (see Amyx, 2004). The idea is justified, since international financial intermediation has been taking place outside the region, particularly in the United States. Capital-exporting Asian countries like Japan, Taiwan, Singapore, and the Arab nations have been using bond markets in the United States and Europe to lend out their funds, while Asian countries requiring capital have to raise their funds from Western financial markets. The proposed Asian bond market is aimed at lessening the need for Asian countries to depend on Western financial markets to recycle their funds, hence contributing to economic growth in the region. A regional bond market also reduces reliance of Asian countries on the banking sector. It also addresses the currency mismatch problem that contributed to the regional crisis.

One aspect of surveillance that deserves priority, but has yet to show much progress, concerns the need for effective dialogue among the participating countries about their expectations of as well as perspectives on exchange rate policy. Such a regional dialogue is essential to avoid potential currency conflicts that may arise owing to the different exchange rate regimes in the region. The recent conflict occurred after the 2001–02 depreciation of the yen against the dollar, which was favored by Japan facing a sharp recession during the period. Most governments in the region allowed their currencies to depreciate, partly matching the depreciation of the Japanese currency (see Henning, 2002, p. 89). By contrast, China strongly protests against further depreciation of the yen, which, according to the Governor of the People's Bank of China (China's central bank), could create 'a domino effect of depreciations in Asia' (*Dow Jones International News* cited in Henning, 2002, p. 27).

Obviously, the region needs not only a more effective regional cooperation on exchange rate policy but also more concerted efforts toward a common currency arrangement that can benefit the region. In 2001–02, officials in Japan's Ministry of Finance (MoF) increasingly sought to use the cooperative framework within the ASEAN(+3) as a stepping stone for introducing a common currency in the region (Amyx, 2004, p. 9). A common regional currency can contribute to the regional public good of financial stability (see Chin, 2006: Table 4.1). But it turned out to be problematic when the MoF saw it as a way to stimulate Japanese financial markets by pursuing a yen-centred regional exchange rate regime, eliciting deep suspicion of Japan's motives within the region. Owing to the widely diverse stages of economic development and structure of trade in the region, there clearly was no currency

7 FoBF is a two-tiered structure with a parent fund investing in eight sub-funds, each of which will invest in local currency sovereign and quasi-sovereign bonds issued in their respective markets.

arrangement optimal to all players in the region. Thus, the idea was viewed as 'one that focused on regional integration through the prism of Japan's national interests rather than through the prism of greater regional collective interests' (Amyx, 2004, p. 9). Consequently, few regional players were keen to commit significant resources in this effort, other than engaging in study groups under the 'Kobe Research Project', proposed by Japan in 2001.[8]Another initiative was the Asian Monetary Union or Asian Currency Unit (ACU) proposed by the ASEAN Plus Three at the finance ministers' meeting in May 2006, which models itself after the European Currency Unit that existed as the region's currency unit before the introduction of the euro. However, as Katada (2009: 12) notes:

monetary cooperation at this stage has not given rise to discussion on convergence criteria or explicit macroeconomic policy coordination, which would be necessary in managing the stable exchange rates among the countries whose capital movement is relatively free (i.e., Mundell-Fleming Condition or Unholy Trinity). In addition, despite the concerns over global imbalance and the high dollar-dependence of East Asia, the currency discussion in the region has not yet converged into concrete actions.

Clarion Call For Global Solutions

The pressure to address flaws in the international financial arrangements seems to be weakened as the rapid recovery in the region in the early years of the new millennium was seen as proof of the resilience of the international financial system (Jomo, 2008: 22). The reforms initiated by the G7 toward enhancing political legitimacy of the global financial governance have been disappointing. They have not yet met the expectations of emerging market economies, particularly East Asia. In terms of representation and participation, the Financial Stability Forum (FSF) – first convened in April 1999, at the initiative of G7 Finance Ministers and Central Bank Governors, in order to promote international financial stability, improve the functioning of financial markets and reduce the tendency for financial shocks[9] – remain highly selective. While only two non-G7 Asian countries are represented (i.e. Singapore and Hong Kong), other key Asian economies such as China, South Korea and India are excluded.

Triggered by the US subprime mortgage crisis beginning around July 2007, the global financial meltdown has taken down financial giants one by one — Bear Stearns, Lehman Brothers, Freddie Mac and Fannie Mae, Merrill Lynch, AIG. The collapse of all these financial giants is a clear indication of a systemic failure. Obviously, what differentiates the current global financial

8 The project published its report in July of 2002 and recommended a monetary integration process for phase one to be completed by 2010, preparation for a single currency for phase two to be completed by 2030 and the launching of a single currency in phase three that would commence in 2030 (Katada, 2009: 12).

9 For details, see the website of FSF at http://www.fsforum.org/about/mandate.htm

turmoil from the East Asian crisis is not only the gravity of its impact but more importantly the fact that the epicenter of the ongoing financial crisis locates at the influential advanced economies. Thus, it is not surprising to comprehend the swift attention and responses given by the global financial governance institutions to contain the problem. The current IMF traditional rescue program comes very promptly with fewer strings attached as compared to its previous rescue program during the East Asian crisis:

"The IMF-led $25.1 billion bail-out of Hungary on October 28th was "fast, light and big. The rescue came just days after the fund agreed on a $16.5 billion package to shore up Ukraine's collapsing economy, a prospect which seems to be unblocking the country's wretchedly deadlocked politics. . . Iceland, which is negotiating a $2 billion bail-out from the IMF, is being forced to take some bitter medicine after the failure of its banks". (*The Economist*, 30 October 2008).

Due to the uncertainty of how many more countries the IMF and other lenders need to rescue and whether they can afford to do so, it was reported that Gordon Brown, Britain's prime minister, wants countries with big surpluses, such as China and the oil-rich Gulf states, to contribute more (*The Economist*, 30 Oct 2008). "We swim together, or we sink together," said the European Commission's president, José Manuel Barroso, as Asian and European leaders gathered in Beijing for a summit on October 24th and 25th that was dominated by the global financial crisis. France has proposed incorporating emerging economies into the exclusive G-8 club of industrialized nations but didn't specify which emerging-market nations besides Brazil, Russia, India and China should be allowed to join. World Bank President Robert Zoellick warned that extremely poor nations whose economies are most vulnerable, including many in Africa, also need a voice because their citizens will be most hurt by the current turmoil (*The Star*, 9 November 2008).

It is argued that the present global financial crisis provides a good opportunity for emerging economies, particularly East Asian countries to press for more legitimacy of the global financial arrangements. It ranges from the call to reform the IMF to the proposal of new financial governance arrangements. Chinese Premier Wen Jiabao did say that developing countries should have a stronger say in a new financial system although he did not go far in public to say that US's de facto power of veto in the IMF should end. The reason for the modest demand is that China does not want "to be seen as a problem for existing powers" (Albert Keidel as quoted in *The Econonist*, October 2008) at this stage of its economic development. But in this interdependent world, China is also feeling the pinch of the global credit crunch. On the other hand, Brazil and other emerging-market nations have long complained their representation in the IMF and World Bank is insufficient, and Silva proposed that the G-20 is better positioned to forge new international financial regulations, because it more broadly represents both rich and developing countries. All of this leads us

pondering as to whether a 'new', more legitimate financial order will emerge or whether global financial and political elites may attempt to establish a 'new' global monetary order that will concentrate even further power in their hands.

We have heard of the clarion call for a global system of financial regulation since the onset of the global financial crisis. It ranges from a global college of regulators, say; a binding code of international conduct to an international financial regulator. Nonetheless, what seems to be the main concern is the feasibility and desirability of global solutions. As Rodrik (cited in *The Economist*, 2009, March 12) argues, the logic of global financial regulation is flawed due to the following problems:

- It presumes we can get leading countries to surrender significant sovereignty to international organizations.
- Even if the leading nations were to agree, they might end up converging on the wrong set of regulations, as evidenced by the shortcomings of the Basel process, viewed until recently as the apogee of international financial co-operation.[10]
- There isn't a one-size-fits-all solution as desirable forms of financial regulation differ across countries depending on their preferences and levels of development. Financial regulation entails trade-offs along many dimensions. The more you value financial stability, the more you have to sacrifice financial innovation. The more fine-tuned and complex the regulation, the more you need skilled regulators to implement it. The more widespread the financial-market failures, the larger the potential role of directed credit and state banks.

Ocampo (1999; 15-16) identifies three features of the political economy of the current globalization process which have major implications for the global financial reform: the unwillingness of most countries, both industrialized and developing countries alike to give up economic sovereignty to international or even regional organizations; the disorganization of actors, particularly developing countries, in the international policy forum; and the incomplete and even lopsided character of the international policy agenda that accompanies the process. These features imply that "only weak pressures for substantial reform would be present, that any balanced negotiation process would be cumbersome, and that negotiation processes may underestimate or bypass altogether the interests of certain actors" (Ocampo, 1999: 16). Thus, it is argued that "an international system that relies on one or a few international institutions will be less balanced than one that relies on a network of regional institutions" (Ocampo, 1999: 16). These arguments lead us to reflect on the case for regional solution in the new financial order which will be addressed in the following section.

10 Basel 1 ended up encouraging risky short-term borrowing, whereas Basel 2's reliance on credit ratings and banks' own models to generate risk weights for capital requirements is clearly inappropriate in light of recent experience.

Is the Regional Solution Still Relevant?

The role which regional institutions can play in an international financial arrangement have not garnered much attention until recently. There are several arguments in favor of a bigger role for regional institutions in the new financial order (see Ocampo, 1999: 33-35). Owing to the growing macroeconomic linkages arising from increasing economic regionalization (i.e. rising intraregional trade and direct investment flows), demand for 'global public good' (e.g. global macroeconomic stability etc.) and certain services in the area of international finance has risen including the provision of macroeconomic consultation and surveillance, as well as coordination and surveillance of national systems of prudential regulation and supervision. In so far as these services may be subject to diseconomies of scale and it is unclear whether others have strong scale economies to justify a single international institution, regional institutions can provide these essential services, particularly in the face of a dynamic process of open regionalism.

In addition, regional arrangements provide countries in a region, particularly the small ones that have limited negotiation power vis-a-vis large organizations "the access to a broader menu of alternatives to manage a crisis or to finance development" (Ocampo, 1999: 34). To the extent that no effective global solutions are forthcoming, a search for a cooperative solution could begin in Asia, widening the menu of policy options to individual countries in the region (Kawai and Lamberte, 2010: 43).

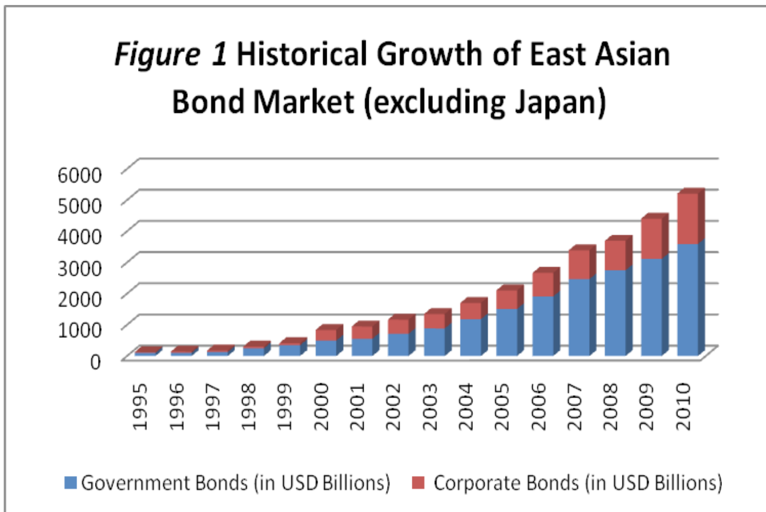
Thus, a regional solution is still relevant as Rodrik points out that '[i]n short, global financial regulation is neither feasible nor desirable. What finance needs instead are some sensible traffic rules that will allow nations (and in some cases regions) to implement their own regulations while preventing adverse spillovers' (*The Economist*, 2009, March 12). It is necessary to establish at the regional level reliable and stable mechanisms not only for south-south recycling from surplus to deficit countries without going through Wall Street or the City, but also to provide development finance (Ocampo, 1999).

The global financial tsunami has provided further impetus to push forward ASEAN integration. The declaration on the roadmap for ASEAN Community (2009-2015) was adopted at its 14th annual summit in March 2009, thus turning the 42-year-old grouping into a rule-based organization (ASEAN Secretariat, 2009). This shows the commitment of ASEAN leaders to resolve the current turmoil to revitalize the region's economy. Among the resolutions discussed to cope with the surging global financial crisis and economic recession include stressing the importance of macroeconomic policy coordination, standing firm against protectionism, implementing the integration of the ASEAN Economic Community (AEC) Blueprint (by encouraging a free flow of goods, services and investments and a freer flow of capital across the region), working with the 'plus three' countries to speed up the CMI Multilateralization (CMIM) as well as cooperating with the G20,

particularly on the reform of the international financial institutions and markets (ASEAN Secretariat, 2009). There are still some doubts on whether ASEAN can be turned into a collective force to cope with financial crisis. Having accumulated some valuable experience since the 1997/1998 crisis, however, ASEAN has raised its capacity to some extent to cope with financial crisis by pooling regional forces to enhance regional cooperation with the 'plus three' countries.

Among the three areas of regional financial and monetary cooperation that have progressed so far as discussed in the previous section, the emergency liquidity funding arrangement of currency swaps under the CMI is the most institutionalized. Meanwhile, the Asian Bond Market Initiative (ABMI) and Asian Bond Fund (ABF) are progressing gradually (see Figure 1) and informally. Despite the importance of addressing the dollar dependence and ultimate stability in regional financial affairs, there is currently not much commitment in the area of monetary and currency cooperation in the form of an ACU as member countries still have difficulty compromising their respective national macroeconomic policy autonomy for the sake of financial and monetary cooperation

In order for these areas of regional financial and monetary cooperation to be viable and operational, an effective mechanism of intensive regional policy dialogue is indispensable (Kawai and Lamberte, 2010: 43). Thus, the idea of creating an Asian Financial Stability Dialogue (AFSD) analogous to the Financial Stability Forum (FSF) at the global level was first mooted in September 2008 by Asian Development Bank (ADB) President Haruhiko Kuroda, at a time when the global financial crisis was reaching its peak. Under the ASEAN+3 framework, the AFSD which comprises the regional network of finance ministers, central bank governors, and financial market regulators and supervisors provides a vital forum to facilitate policy dialogue and joint action among the authorities so as to identify regional financial risks and act on them collectively. As FSF, under the auspices of the Bank for International Settlements, seems to be mainly concerned with preserving stability among major global financial centers, the former could be an agent of policy dialogue to discuss more openly national and regional policy interventions. This would not only promote longer-term financial market development and integration, but also represent a coherent regional collective action, providing Asian input for more effective global participation in global financial reforms.



Source: Asian Bonds Online. Available: http://www.asianbondsonline.adb.org. (accessed April 6, 2010)n

Concluding Remarks

In the decade since the Asian financial crisis, Asian states have increasing realized the significance of enhancing regional economic and financial cooperation. The need for enhanced protection against destabilizing capital flows, especially portfolio investment and other short-term capital flows is all the more justified as the existing regional institutional economic arrangements under ASEAN and APEC have failed to provide regional public good of financial stability. Weaknesses of international organizations, particularly the IMF in dealing with the financial crisis effectively also spurred the regional initiatives to accelerate monetary and financial cooperation. Their traumatic and costly experience a decade ago has resulted in more willingness to set aside their differences in order to enhance regional cooperation so as to improve the region's resilience to future financial crises. Prior to the onslaught of the current global financial crisis, new concerns have emerged following the region's dynamic growth over the decade – how to tap its huge foreign reserves as well as how to cope with surging capital inflows.

Now and again, the severity of the ongoing global financial tsunami has brought the issue of financial stability to the fore on two fronts. First, problems created by unstable capital flows as demonstrated in the past two episodes of crisis implies that policy options at the national level of financial governance need to be supplemented by greater monetary and financial cooperation among monetary authorities in the region.. Second, the ASEAN+3 leaders realize that they have to build on the current momentum in regional cooperation as

existing regional mechanisms and institutions for financial crisis prevention and management are grossly inadequate. Third, they also realize that now it is a good opportunity to press for more legitimacy of the global financial arrangements, particularly associated with inclusiveness or representation, agreed systems of rules and fair returns (refers to the fair sharing of costs and benefits in cooperative efforts).[11]

Notwithstanding the clarion call for global solutions, there are doubts on its viability. A case in point is the letdown of Group of 20 (G20) summit on the global financial reforms in London in early April 2009 due to major disagreements among the US, Europe and developing countries on what needs to be done. Most European leaders pushed for stronger global financial regulations to prevent future crises. As a major center of finance, however, this is being resisted by the US, which favors more commitment to stimulus fiscal and monetary measures to boost economic recovery. While both the US and Europe want to use the G20 summit to enhance the resources and role of the IMF, the developing countries disagree on the revitalization of the IMF before it is reformed. Given the rising financial interdependence in Asia as well as the politically difficult challenge of reforming the international financial architecture that includes the prevention, management, and resolution of financial crises in a timely and effective manner, regional monetary and financial cooperation offers an intermediate alternative between national and international levels of financial governance.

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