

# The CMI and CMIM

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## Background

During the 1997 Asian financial crisis (AFC), the five crisis-hit economies — Indonesia, Korea, Malaysia, the Philippines, and Thailand — experienced a combined loss of around 30% of gross domestic product (GDP).<sup>1</sup> Many were of the view that the AFC was not a traditional current account crisis such as those earlier seen in Latin America. Rather, it was viewed as a capital account crisis driven by investor panic and an erratic shift in market expectation that portrayed a negative aspect of financial globalization, compounded by underlying weak macroeconomic fundamentals in the crisis-hit economies.<sup>2</sup> The crisis that began in Thailand in early 1997 quickly spread to neighboring countries by way of contagion. The interconnectedness in trade and finance in the region brought on a regional economic downturn as a whole.

Following these turbulent events, Thailand went to the International Monetary Fund (IMF) for a bailout in July 1997. There was widespread dissatisfaction with the IMF bailout programs in the region. The IMF, assuming the role of global crisis manager, could not provide swift and large-scale liquidity support to prevent and resolve the crisis in Asia. The lending conditions contained a comprehensive structural reform agenda, including not only the measures to address underlying weakness in financial systems but also corporate restructuring and governance reform, disclosure and accounting standards, trade and capital account liberalization, competition policy, privatization, labor reform, and so on. They were believed by many to be inadequate, too stringent, and without regard for the specific circumstances of each country.<sup>3</sup>

<sup>1</sup> Asian Development Bank (1998).

<sup>2</sup> Kuroda and Kawai (2002).

<sup>3</sup> Feldstein (1998), Sussangkarn (2010), Park (2008). Indeed, there was a counterargument that the program focusing on structural issues was immediately required to strengthen market confidence (IMF 2000).

Given that the AFC was largely a capital account crisis, excessively high interest rates and deflationary measures imposed by the IMF led to a sharp downturn in economic activities.

The scope and timing of IMF policy conditionality were based on a standard set of “structural performance criteria” in keeping with the Washington Consensus, which was seen as “intrusive in national affairs” and damaged the national ownership of the IMF program.<sup>4</sup> In fact, even if structural reforms were relevant, it was considered not necessarily ideal to implement them in a time of crisis. This led to “IMF stigma,” which has prevented several of the region’s governments from going into an IMF program for fear of being discredited by their own national constituents (political stigma) or financial markets (financial market stigma).<sup>5</sup> Indeed, Dominique Strauss-Kahn, former Managing Director of the IMF, acknowledged in 2010 that it had “made some mistakes” in handling the AFC.<sup>6</sup>

Regional policymakers agreed that an effective regional framework could have averted the crisis or could have, at the very least, brought it under control sooner and more effectively. The use of a regional framework would have also replaced or supplemented the IMF’s role. An alternative arrangement would have taken into account country-specific factors. Prior to the AFC, the level of regional financial cooperation did not correspond to increasing economic interdependence in the region through trade, investment, and finance. The AFC provided a strong incentive for Association of Southeast Asian Nations (ASEAN)+3 members to accelerate the development of their own crisis management framework, which gave birth to the Chiang Mai Initiative (CMI) and CMI Multilateralisation (CMIM).

In this chapter, we first look at the initial ideas for a regional mechanism, and focus on how regional and global policymakers tried to bridge the gaps in understanding the expected role of any liquidity mechanism. Second, we outline the progress of the CMI, which was put forward as a regional solution in the form of a liquidity backstop. The next section describes the background to the CMIM and outlines its main features. Finally, we touch upon the issue of institutional lightness in the CMIM and suggest a few issues to be considered in enhancing the role of the CMIM as a regional liquidity mechanism.

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<sup>4</sup> Goldstein (2003).

<sup>5</sup> ECB (2018).

<sup>6</sup> Address by Dominique Strauss-Kahn, Managing Director of the IMF at the Asia 21 Conference, Daejeon, Korea, July 12, 2010 (<https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp071210>).

## Developing Regional Initiatives During the AFC

Following the AFC, East Asian countries started to seek a regional mechanism that would provide sufficient and timely liquidity support, and extend adequate lending conditions. This quest is traced back to the second line of defense for Thailand during the AFC, discussions of an Asian Monetary Fund (AMF), the Manila Framework Group (MFG), and the New Miyazawa Initiative. All these efforts consolidated to become part of the ASEAN+3 financial cooperation framework within which the CMI and CMIM were established.

### The Second Line of Defense in the Bailout Package for Thailand: Prototype of Bilateral Financing

Before the collapse of the Thai baht in July 1997, Thailand came under a series of increasingly serious speculative attacks and markets lost confidence in the economy. By the end of June 1997, more than 90% of its foreign reserves had been used in trying to shore up the baht's value. Thailand was eventually forced to switch to a flexible exchange rate system on July 2, 1997, and the Thai baht was immediately devalued by 20%.<sup>7</sup> The Thai government was unable to manage the crisis on its own. Therefore, it sought external assistance from the IMF.

However, the IMF alone was unable to provide sufficient funds in a timely manner to arrest Thailand's crisis.<sup>8</sup> The IMF and interested parties drew out a rescue package for Thailand at their meeting on August 11, 1997 in Tokyo, Japan. More than 60% of the package came from bilateral arrangements with East Asian economies and Australia, and this was termed as a "second line of defense." This was an arrangement made on an ad hoc basis.<sup>9</sup>

<sup>7</sup> The value of the baht declined persistently from then that to reach a low of THB 48.8 per United States dollar in December that same year, its lowest value since Thailand started keeping record in 1969.

<sup>8</sup> The IMF's lending capacity hinges on its member countries' quota subscriptions, and bilateral borrowings and increasing funding sources is always challenging because of political economy. Thus, in most cases, the IMF's role includes catalyzing additional support from the international community — including the private sector and other international financial institutions, including the World Bank, conditional to an IMF-supported program for policy adjustment for the borrowing country.

<sup>9</sup> Brunei, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, and Australia participated in the rescue package, totaling USD 17.2 billion. The United States participated in the meeting but did not contribute any funds for the "second line of defense." The "second lines of defense" for Korea and Indonesia were not disbursed.

**Table 26.1: Quota, Access Limit and Surcharge in IMF Lending in 1997**  
(USD billion)

Country	IMF Quota 1997	SBA Access Limit	Approved Amount	Total	IMF Surcharge
Korea	SDR 799.6 million (USD 1.0 billion)	1.0 (annual) 3.2 (cumulative)	21.1 <sup>1</sup> (19 times of quota)	58.4	SRF <sup>1</sup> 's surcharge 300–500 bps
Thailand	SDR 573.9 million (USD 780.0 million)	0.7 (annual) 2.3 (cumulative)	4.0 (5 times of quota)	17.2	
Indonesia	SDR 1.5 billion (USD 2.0 billion)	2.0 (annual) 6.2 (cumulative)	10.1 <sup>2</sup> (5 times of quota)	36.1	

bps = basis points, IMF = International Monetary Fund, SBA = Stand-By Arrangement, SDR = special drawing rights, USD = United States dollar.

Notes:

<sup>1</sup> Until 2009, IMF SBA's annual access limit was capped at 100% of quota, and cumulative at 300% of quota. On December 3, 1997, Korea requested a three-year SBA from the IMF in an amount of SDR 15.5 billion under exceptional access policy, which was later institutionalized into the supplemental reserve facility (SRF) under discussion in the Manila Framework Group.

<sup>2</sup> This was augmented by about USD 5 billion under the Extended Fund Facility in February 2000.

Source: Author's calculations for IMF quota, SDR rates, SBA access limit, and SRF's surcharges based on IMF data in the website (<https://www.imf.org/>).

**Table 26.2: Public Financial Assistance During the AFC<sup>1</sup>**

		Thailand (Aug 1997)		Indonesia (Nov 1997)		Korea (Dec 1997)	
		(USD billion)	(Percent)	(USD billion)	(Percent)	(USD billion)	(Percent)
First line of defense	Sum	6.7	39.0	18.1	50.1	35.3	60.4
	IMF	4.0	23.3	10.1 <sup>2</sup>	28.0	21.1	36.1
	World Bank	1.5	8.7	4.5	12.5	10.1	17.3
	ADB	1.2	7.0	3.5	9.7	4.1	7.0
Second line of defense	Sum	10.5	61.0	18.0	49.9	23.1	39.6
	Japan	4.0	23.3	5.0	13.9	10.0	17.1
	US	...	...	3.0	8.3	5.0	8.6
	Singapore	1.0	5.8	5.0	13.9	...	...
	Others	5.5 <sup>3</sup>	31.9	5.0	13.9	8.1	13.9
Total		17.2	100	36.1	100	58.4	100

... = not available, ADB = Asian Development Bank, AFC = Asian financial crisis, IMF = International Monetary Fund, US = United States, USD = United States dollar.

Notes:

<sup>1</sup> The sizes of the financial packages vary, subject to calculation and timing of agreements and sources. Table 26.2 shows the amounts in the original package, which differed from actual disbursements.

<sup>2</sup> On November 5, 1997, Indonesian authorities entered into a three-year stand-by arrangement with the IMF for USD 10 billion. This amount was augmented by about USD 1.4 billion in July 1998. In February 2000, a new three year extended arrangement for about USD 5 billion with the IMF was approved.

<sup>3</sup> USD 5.5 billion: Australia 1, Brunei 0.5, China 1, Hong Kong 1, Indonesia 0.5, Korea 0.5, and Malaysia 1.

Source: ADB (2017), IMF (2000).

Notably, a group of countries in East Asia, including Australia, joined, but the United States (US) did not participate in the bilateral financing for Thailand's rescue package. This was in contrast with the 1995 Mexican peso crisis, when it provided large bridge loans.<sup>10</sup> Bilateral financing, to supplement the IMF lending, was also applied to the rescue package for Indonesia and Korea in 1997 and later by the CMI in 2000. In short, the second line of defense demonstrated the IMF's lending limitation at the time, and the need for an additional liquidity mechanism at the regional level that could also supplement the IMF.

### **The Proposal for an AMF — An Exclusive Regional Fund**

The idea for an AMF had existed long before the AFC. The idea for creating an IMF equivalent in Asia can be traced to the time when the Asian Development Bank (ADB) was established in 1966. However, the role of a regional monetary fund could not be clearly envisioned in the 1960s in Asia, given the stage of regional economic development. This idea was shelved for a long time. In September 1995, Bernie Fraser, former Governor of the Reserve Bank of Australia, proposed an Asian version of the Bank for International Settlements to members of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP).<sup>11</sup> The "Fraser Proposal" was about establishing a regional liquidity mechanism equipped with surveillance capabilities.<sup>12</sup> This proposal did not prosper, owing to insufficient support because emerging Asian economies had little experience in receiving conditional loans from the IMF until 1995. The Fraser Proposal actually portended what would happen in 1997.

Subsequently, Japan's Ministry of Finance developed an idea for an Asian version of the IMF and this idea gained momentum during the AFC. The US' initial passive stance<sup>13</sup> was considered to be a green light for an AMF. Japan

<sup>10</sup>Since securing funds for the Mexican peso bailout had involved a tough political battle in the US, another substantial commitment to bailing out an economy — in which the US clearly had a lesser stake — would have been hard to win Congressional approval (Altbach 1997).

<sup>11</sup>The EMEAP, established in 1991, comprises the central banks and monetary authorities of China, Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Thailand, New Zealand, and Australia. It is a forum to foster mutual relationships and information sharing on economic and financial issues among regional central banks without the involvement of finance ministries.

<sup>12</sup>Seen as of November 5, 2020, at <https://www.rba.gov.au/speeches/1995/sp-gov-250995.html>.

<sup>13</sup>"Japan's Vice Minister for International Finance at the time was Eisuke Sakakibara, whose personal view was that Japan should pursue a greater leadership role in Asia, independent of the US. The United States refrained from contributing to the bilateral aid effort for Thailand, lending support to Sakakibara's personal preference to set up a regional institution absent the United States." (Amyx 2002).

put forward the AMF proposal at the meeting held in Tokyo on August 11, 1997, at which the rescue package for Thailand was agreed upon. The AMF plan comprised the following components<sup>14</sup>:

- (i) The IMF surveillance mechanism will be supplemented by local surveillance by the AMF in the region;
- (ii) In accordance with the IMF economic adjustment program, participants of the AMF will be engaged in financial support of troubled countries in the region; and
- (iii) A permanent secretariat.

The AMF proposal intended to set up a regional backstop starting at USD 100 billion, almost equivalent to the sum of all rescue packages during the AFC (Table 26.2). This would be achieved by pooling East Asian countries' foreign exchange reserves in a fund to deter currency speculation and to mobilize resources during crises. This was a logical solution to address the IMF's lending problems, such as resource adequacy and timely activation. An ad hoc arrangement of bilateral financing, such as the one for Thailand, would take time to coordinate.

In mid-September 1997, prospective members of the AMF included Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, and Thailand. The US was excluded because it had chosen not to contribute to the second line of defense for Thailand.<sup>15</sup> While Japan, Korea, and most ASEAN countries supported the proposal at the formal preparation meeting,<sup>16</sup> China<sup>17</sup> and Australia maintained a neutral position, making general comments without indicating support or opposition.

The US<sup>18</sup> and the IMF were against the proposal, citing a moral hazard problem and the redundancy of the proposed AMF's role vis-à-vis the

<sup>14</sup>Hamada (1999).

<sup>15</sup>Amyx (2002).

<sup>16</sup>It was convened between 10 prospective members and the United States, and the IMF as the observer on the occasion of the IMF–World Bank annual meetings in Hong Kong from September 20–25, 1997.

<sup>17</sup>Agence France-Press, "China Cautious on Proposed Asian Monetary Fund," November 18, 1997, quote from a government official: "The parties concerned have yet to conduct studies on this issue." Another view was that China was concerned about the role played by Japan in the region which could sidestep China's position. As China was seeking a membership of the World Trade Organization (WTO), they did not want to go against the US stance (See note 15).

<sup>18</sup>It is reported that after obtaining the unofficial AMF outline paper, the US intended to participate in forming an "Asia Pacific Cooperative Framework" for crisis resolution by sending out a letter signed by then Treasury Secretary Robert Rubin and Federal Reserve Chairman Alan Greenspan to all Asia-Pacific Economic Cooperation finance ministers.

IMF.<sup>19</sup> They, as well as many European countries, suspected an AMF would attach softer conditionality to crisis financing. In their view, it would simply promote moral hazards, provide “easy money,” and divide creditors. Then US Treasury Secretary Lawrence Summers and Under Secretary Timothy Geithner argued that overlapping mandates would, in turn, undermine the IMF’s central role in the global financial system, in the process framing the discussion as an AMF versus IMF tussle.

This dissenting argument was partly overblown. An AMF would not trespass on the IMF’s key function since it would be “in accordance with the IMF economic adjustment program.” It was also premature to discuss the moral hazard issue in the heat of the crisis, which could be resolved by formulating a framework in which an AMF would complement the IMF. Regional arrangements in Latin America<sup>20</sup> and Arab<sup>21</sup> states had already co-existed alongside the IMF since the late 1970s. Nonetheless, the detailed criteria an AMF would apply when making a decision for financing and policy adjustments were still unknown.

Part of the reason for the AMF proposal not being accepted was that it came at the wrong time, with insufficient lead time for background work and preparation.<sup>22</sup> The IMF was already arranging and implementing the rescue package for Thailand when this proposal was announced. As a result, there was insufficient time for informal discussions and lobbying of key stakeholders.<sup>23</sup>

Meanwhile, some people held the view that the unspoken motivation for the objection to an AMF was that the US and the IMF were deeply concerned about their possibly diminished roles in Asia following its creation.<sup>24</sup> In fact, the US did not oppose the creation of an AMF itself, but challenged the idea of an AMF without US membership. The US did not favor a framework

<sup>19</sup>It is reported that Stanley Fischer, the First Deputy Managing Director of the IMF, said the proposed AMF could undermine the authority and effectiveness of the IMF itself (See note 15).

<sup>20</sup>The Latin American Reserve Fund was first established in 1978, comprising Bolivia, Colombia, Costa Rica, Ecuador, Paraguay, Peru, Uruguay, and Venezuela to provide balance of payments support, grant loans, or guarantee loans from third parties.

<sup>21</sup>The Arab Monetary Fund was founded by Arab states in 1976 in context of the 1970s’ oil price boom. It was initially established to provide low-interest loans to less prosperous Arab countries experiencing balance of payments problems.

<sup>22</sup>Sussangkarn (2010).

<sup>23</sup>Mr Eisuke Sakakibara recalled in an interview that “in retrospect, Japan lacked contacts with top Beijing officials. We asked their counterparts in Hong Kong to connect us with them so that we could explain our intention but it did not work.” (June 22, 2017, Nikkei Asian Review).

<sup>24</sup>See note 15.

that sought an East Asian model of economic and financial management on the ground that it might go against the then existing global framework, particularly from a financial liberalization agenda standpoint.<sup>25</sup>

The rise and fall of the AMF proposal made it clear that a regional arrangement could be successfully launched with more solid and unified support of members under collaborative capabilities. Nevertheless, the AMF proposal had set the approach for expanding a regional self-help mechanism, which was elaborated on further in the MFG and then the New Miyazawa Initiative, which eventually led to the CMI's creation.

### **Manila Framework Group — A More Inclusive Framework**

Once the AMF proposal failed to take flight owing to the US' opposition, the US had to reinforce its engagement with East Asia to maintain its status and regional clout. The US proposed an alternative arrangement called the MFG. The MFG was established in Manila, the Philippines, on November 25, 1997, at a meeting convened immediately after the Asia-Pacific Economic Cooperation (APEC) Leaders' Meetings. It was a forum for deputies from finance ministries and central banks of 14 APEC economies, comprising the contributors to the Indonesian rescue package. It therefore included the US and Canada, which was the APEC Chair at that time.<sup>26</sup> The meeting also included international financial institutions (IFIs) such as the IMF, World Bank, ADB, and the Bank for International Settlements.

The MFG did not suggest creating a regional pool of funds under a permanent secretariat. Instead, it sought a mechanism for regional surveillance to complement the IMF's global surveillance.<sup>27</sup> Since the IMF played the role of a loose secretariat for surveillance purposes, its surveillance and crisis financing practices were to be followed. Regional participants, meanwhile, felt they were regularly scrutinized by the IMF and the US<sup>28</sup>

As the AFC eased and then passed and economic recovery and structural adjustment progressed, members' interest in the MFG waned. In 2000, the group stopped releasing a joint statement at the conclusion of

<sup>25</sup>Bergsten (1998). He was a close aide to the Clinton Administration and Head of the Institute for International Economics (IIE) in Washington. Lee (2006).

<sup>26</sup>The participants to the MFG were Australia, Canada, New Zealand, the US, Brunei, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, and Thailand (14 economies).

<sup>27</sup>Official summary of the discussion at the inaugural meeting in Manila, November 1997. ([https://www.mof.go.jp/english/international\\_policy/financial\\_cooperation\\_in\\_asia/manila\\_framework/if000a.htm](https://www.mof.go.jp/english/international_policy/financial_cooperation_in_asia/manila_framework/if000a.htm))

<sup>28</sup>Wang and Woo (2004).



its semi-annual meetings. At its final meeting in November 2004, members decided to discontinue the MFG after noting that its objective was largely achieved. At around that time, crisis-hit economies under IMF bailout packages emerged successfully out of the crisis and from relevant IMF programs.

### **New Miyazawa Initiative and Changed Circumstances**

In 1998, global policymakers also noticed the financial crisis had extended beyond East Asia to Russia and Brazil. The US had to shift its focus to international financial stability, which assumed greater priority than concerns relating to the Washington Consensus. In October 1998, financial authorities from the Group of Seven (G7) countries held the first meeting of the Financial Stability Forum.<sup>29</sup> The authorities clearly recognized the need to make the international financial system less vulnerable by strengthening regulatory and supervisory measures for highly leveraged hedge funds, offshore markets, and short-term capital flows.

Under the changed circumstances, Japan reaffirmed its active position and decided to provide further support to crisis-hit economies.<sup>30</sup> On October 3, 1998, it announced the New Miyazawa Initiative at the meeting of finance ministers and central bank governors attended by Indonesia, Malaysia, the Philippines, Korea, and Thailand. This initiative included a financial support package totaling USD 30 billion, named after Japan's then Finance Minister Kiichi Miyazawa. By mid-1998, US officials had also begun to better appreciate Japan's efforts in stabilizing East Asia.<sup>31</sup> This was illustrated by the US–Japan joint announcement to establish the Asian Growth and Recovery Initiative in collaboration with the World Bank and ADB in November 1998.<sup>32</sup>

By the end of 1998, most affected countries had emerged out of a severe crisis situation. However, there was still a paucity of funds, because of which

<sup>29</sup>The Financial Stability Forum (FSF) under G7 was first convened in April 1999 in Washington, D.C., consisting of major financial authorities. After the GFC, the Financial Stability Board (FSB) was established in April 2009 under the Group of Twenty (G20), as the successor to the FSF with an expanded membership and broadened mandate. Since then, the FSB has assumed a key role in promoting the reform of international financial regulation and supervision.

<sup>30</sup>Katada (2001).

<sup>31</sup>Kikuchi (2002). The announcement sought to quickly restore economic growth by restructuring regional corporations and banks, and mobilizing private sector funding. This effort also resulted in the establishment of the Asian Currency Crisis Support Facility, which was housed within the ADB and was funded by Japan, drawing funds from the New Miyazawa Initiative.

<sup>32</sup>"Asian Growth and Recovery Initiative," accessed on December 27, 2020, <https://japan.kantei.go.jp/e1e055.html>.

**Table 26.3: Path Toward the CMI**

Date	Main Developments
<b>Jul 1997</b>	<ul style="list-style-type: none"> <li>• Thailand devalued the baht and requested assistance from the IMF.</li> <li>• Malaysia intervened to defend the ringgit.</li> <li>• The Philippine peso was floated.</li> </ul>
<b>Aug 1997</b>	<ul style="list-style-type: none"> <li>• Thailand agreed to the IMF program with tough economic measures, including a second line of defense (without the United States).</li> <li>• Indonesia's rupiah plunged.</li> <li>• Japan proposed an "Asian Monetary Fund (AMF)."</li> </ul>
<b>Sep 1997</b>	<ul style="list-style-type: none"> <li>• A formal preparatory meeting for AMF was convened, but did not reach consensus.</li> </ul>
<b>Oct 1997</b>	<ul style="list-style-type: none"> <li>• Indonesia asked the IMF for emergency liquidity support.</li> <li>• Korean's won began to weaken.</li> </ul>
<b>Nov 1997</b>	<ul style="list-style-type: none"> <li>• Manila Framework Group was established (discontinued from 2004).</li> <li>• IMF approved a rescue package for Indonesia, including a second line of defense (including the United States).</li> <li>• Korea requested IMF aid.</li> </ul>
<b>Dec 1997</b>	<ul style="list-style-type: none"> <li>• IMF approved a bailout package for Korea, including a second line of defense (including the United States), the largest in history.</li> <li>• First ASEAN+3 Summit was held in Malaysia.</li> </ul>
<b>Oct 1998</b>	<ul style="list-style-type: none"> <li>• Japan announced the New Miyazawa Initiative.</li> </ul>
<b>May 1999</b>	<ul style="list-style-type: none"> <li>• First ASEAN+3 Finance Ministers' Meeting (AFMM+3) was held, aiming to create a regional emergency financing facility.</li> </ul>
<b>Nov 1999</b>	<ul style="list-style-type: none"> <li>• Third ASEAN+3 Summit formally initiated the ASEAN+3 financial cooperation, seeking to enhance self-help mechanism in East Asia.</li> </ul>
<b>May 2000</b>	<ul style="list-style-type: none"> <li>• ASEAN+3 finance ministers launched the CMI.</li> </ul>

ASEAN = Association of Southeast Asian Nations, CMI = Chiang Mai Initiative, IMF = International Monetary Fund.

they were unable to forge ahead with economic development initiatives or tide over prevailing economic woes. Half the funds under the New Miyazawa Initiative were made available for medium- to long-term financial assistance for capital investment needs. The other half was set aside to provide short-term financial support, if required, when countries were in the process of implementing economic reform.<sup>33</sup> In particular, this took the form of bilateral currency swap arrangements — the Japan–Korea swap for USD 5.0 billion and Japan–Malaysia swap for USD 2.5 billion.

<sup>33</sup> Along with the New Miyazawa Initiative, Japan provided USD 3 billion for the establishment of the Currency Crisis Support Facility at the ADB for guarantees and interest subsidies. Additionally, in December 1998, Japan announced a Special Yen Loan Facility, totalling approximately USD 5 billion, as assistance for economic structural reform. "Official Development Assistance (ODA)," Ministry of Foreign Affairs, Japan, [https://www.mofa.go.jp/policy/oda/summary/1999/ov2\\_2\\_01.html#chart\\_19](https://www.mofa.go.jp/policy/oda/summary/1999/ov2_2_01.html#chart_19).

This currency swap represented a shift from simply providing liquidity assistance during a crisis on an ad hoc basis to establishing a permanent swap network for future crises. While this was not a separate fund like the AMF proposal, the Miyazawa swap network was another step toward a permanent regional financing arrangement (RFA) — a key component of the CMI.<sup>34</sup> The requirements for receiving funds from the New Miyazawa Initiative were simply commitments to economic reform, taking into account the situation in each country. This was in contrast to the intrusive, meticulous conditionality of IMF programs.

### Path Toward the CMI

Various ideas and regional initiatives were seen from the time the AFC broke out in 1997 until the CMI emerged in 2000. Some were successful while others were not. For instance, bilateral financing came to the fore in a more structured way. It offered a practical means of emergency financing that supplemented IMF lending. However, the idea of a separate Asian fund failed. To meet large-scale emergency financing needs, bilateral financing was provided on an ad hoc basis as a second line of defense. Such financing was used for Thailand in August 1997 and employed again by the Manila Framework for a cooperative financing arrangement that would supplement IMF resources. This was transformed into two pre-arranged currency swap lines under the New Miyazawa Initiative. The next step was the expansion of these initiatives with more regional partners under the CMI, which was launched since May 2000.

Regional and global policymakers began to share a common understanding of the causes of the AFC and how it should have been addressed.<sup>35</sup> Global policymakers gradually embraced the concerns of East Asia that rapid and upsized liquidity support was essential to fend off capital account crises since the IMF could not manage these on its own. There was a strong need for reform in international financial regulation and supervision given the scale of the crisis, which also engulfed Russia and Brazil. At the global level, reforms for crisis prevention, response, and resolution were proposed and

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<sup>34</sup>The currency swaps under the New Miyazawa Initiative were the predecessor of CMI, a network of bilateral swaps. In countries that already had IMF programs in place, the Miyazawa swap lines complemented IMF lending. They were extended to Malaysia, Vietnam, and Myanmar, where IMF programs were not in place. Malaysia, having rejected IMF support and imposed capital controls in September 1998, welcomed the swap lines as they could be disbursed quickly without any linkages to IMF conditionality. In Malaysia's case, the initiative actually substituted IMF lending, rather than supplement it.

<sup>35</sup>Grimes (2009).

put in place. They focused on managing the forces of financial globalization, particularly in a world of rapid short-term capital flows. The IMF had consistently increased its lending capacity through quota reforms and borrowing schemes, although it was yet to reach an optimal level.<sup>36</sup> At the same time, there was growing awareness in East Asia that large-scale liquidity support on a short-term basis alone would be insufficient to avert a crisis and that, to a certain extent, policy adjustments, such as financial sector reforms, though painful, are necessary to address domestic weaknesses.

## **CMI Under the ASEAN+3 Process**

### **ASEAN+3 Financial Cooperation Process**

A regional concept based on East Asia was originally put forward by Malaysia's then Prime Minister Mahathir Mohamad. This was around the same time the APEC was established in 1989. The East Asian Economic Caucus (EAEC) was meant to comprise East Asian countries — ASEAN countries, China, Japan, and Korea — but was not realized in the early 1990s. It was reported that the US and Australia quickly opposed the EAEC because they were excluded from the new grouping.<sup>37</sup> On the occasion of the APEC Osaka meeting in 1995, the Thai government hosted an informal meeting among ASEAN+3 leaders, a similar grouping to the EAEC, in preparation for the prospective Asia–Europe Meeting (ASEM), whose first summit was held in Bangkok in March 1996. In March 1996, heads of ASEAN+3 met on the occasion of ASEM Summit, now regarded as the start of ASEAN+3 regional cooperation. They decided to meet again at the ASEAN Summit in December 1997. This was the first time that only East Asian leaders — that is, leaders from the ASEAN+3 — had gathered in one place.

It was in the backdrop of the AFC that the first ASEAN+3<sup>38</sup> summit was held in Malaysia in December 1997. The countries discussed regional financial cooperation, but there was no significant outcome. Since the AMF proposal was unsuccessful in September 1997 and the MFG became the main

<sup>36</sup>The IMF introduced a standing borrowing arrangement with official lenders called the New Arrangements to Borrow, effective November 1998, and the General Arrangements to Borrow.

<sup>37</sup>Terada (2003), Yoshida (2004).

<sup>38</sup>Nine ASEAN member countries plus China, Japan, and Korea. Cambodia joined ASEAN only on April 30, 1999.

forum for crisis management, there was no further initiative taken during that first summit. Momentum in favor of an RFA gathered again at the second ASEAN+3 summit held in Hanoi, Vietnam in December 1998. In the context of changed circumstances in the US and global concerns around financial stability, the importance of the New Miyazawa Initiative was reaffirmed at this meeting. The idea of a separate regional fund was re-bundled into a form of pre-arranged swap lines while reflecting the MFG process. China proposed that deputies from ASEAN+3 finance ministries and central banks meet on a regular basis to explore possibilities for regional financial cooperation.<sup>39</sup>

Subsequently, the first ASEAN+3 Finance Deputies' Meeting (AFDM+3) was held in March 1999. This meeting led to the first ASEAN+3 Finance Ministers Meeting (AFMM+3) held immediately on the occasion of the ADB annual meeting in Manila, the Philippines in May 1999. It set three core goals: strengthening regional bond markets, promoting monetary policy cooperation, and creating an emergency financing facility. CMI emerged from these goals. At the third ASEAN+3 Summit held in November 1999 in Manila, ASEAN+3 leaders formally initiated the ASEAN+3 financial cooperation process. The leaders sought to enhance self-help and support mechanisms in East Asia through the ASEAN+3 Framework in the areas of monetary and financial cooperation.

## The CMI

In May 2000, the ASEAN+3 finance ministers launched the CMI, which defined the scope of financial cooperation within ASEAN+3. The CMI was a solution proposed to meet the need for large and timely financing, if required, to address short-term liquidity difficulties in the region and supplement existing international facilities (such as IMF lending), comprising two components: (i) expanding and enhancing the ASEAN Swap Arrangement (ASA) and (ii) establishing a network of bilateral swap arrangements (BSAs).<sup>40</sup>

This initiative was cautiously welcomed by the US and the IMF.<sup>41</sup> Randall Henning, a professor of international economic relations at the American University in the US, documented that the US Department of

<sup>39</sup>Henning (2002).

<sup>40</sup>The Joint Ministerial Statement of the ASEAN+3 Finance Ministers Meeting, May 6, 2000, Chiang Mai, Thailand.

<sup>41</sup>See note 1; "U.S., IMF Cautiously Welcome Asia Currency Swap Plan," Dow Jones International News, May 8, 2000.

Treasury, which chiefly blocked the AMF proposal, remained aloof and cautious about the CMI in early 2000. Then Assistant Secretary for international affairs, Edwin M. Truman, who represented the US at the ADB annual meeting in May 2000, said the CMI as a regional initiative would be “perfectly appropriate.” He said “the devil is in the details” and “if they are supportive of prompt financing and economic adjustments, then I think they are to be commended.” An IMF representative welcomed the CMI as well, noting it was intended to work with the IMF.<sup>42</sup>

## Expanded ASA

The ASA dates back to 1977 when it was established by the five original ASEAN members (Indonesia, Malaysia, the Philippines, Singapore, and Thailand), serving as a symbol of ASEAN solidarity. The ASA is a reciprocal currency swap arrangement to “provide short-term foreign exchange liquidity support for member countries that experience balance of payment difficulties.” This is accomplished by exchanging local currency with US dollars, similar to the CMI. At the initial stage, each member was equally committed to contributing USD 20 million toward a total amount of USD 100 million in 1977. The contribution amount was increased to USD 40 million per country in 1978, taking the total to USD 200 million.

**Table 26.4: ASEAN Members’ Contribution to the ASA Since 2005**

Participating Members	Commitment Amount (USD million)	Proportion of Total Commitment (Percent)
Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei	300	15.0
Vietnam	120	6.0
Myanmar	40	2.0
Cambodia	30	1.5
Lao PDR	10	0.5
<b>Total</b>	<b>2000</b>	<b>100.0</b>

ASA = ASEAN Swap Arrangement, ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People’s Democratic Republic, USD = United States dollar.

Source: Association of Southeast Asian Nations Documents Series 2005, found at [www.asean.org](http://www.asean.org).

During the AFC, the ASA — of USD 200 million — was too small to address financing needs. This amount increased to USD 1.0 billion in November 2000 and to USD 2.0 billion in May 2005 but was still far smaller

<sup>42</sup>See note 39.

than the size of Thailand's rescue package (USD 17.2 billion). These concerns led ASEAN economies to turn to an expanded regional financial cooperation under the CMI with the so-called "Plus Three Countries," comprising China, Japan, and Korea.

### Network of BSAs Under the CMI

The finance ministers of the ASEAN+3 launched a regional network of BSAs, which formed the core of the CMI, in Chiang Mai, Thailand in May 2000. The BSA network was taken as a "functional equivalent" of the original AMF idea in terms of providing large-scale financing in a timely manner.<sup>43</sup> The modality of bilateral financing by swaps was an extended form of the New Miyazawa Initiative. The CMI affirmed the central role of the IMF in crisis management following the MFG discussion, which was reflected in BSA objectives and the existence of the IMF-linked portion. IMF centrality implicitly indicated the IMF would take the lead and decide on the macroeconomic framework and policies. Regional and bilateral donors, meanwhile, would contribute to the scheme.

### CMI BSA Objectives and Participants

The objective of CMI BSAs was twofold. The swap arrangement would (i) provide "short-term liquidity support" as a self-help mechanism in the form of swaps to a member in need of balance of payments or short-term liquidity support<sup>44</sup> and/or (ii) supplement existing international facilities such as those provided by the IMF and the ASA.

The first objective assumed the occurrence of a liquidity crisis — one that was mainly brought about by contagion risks and was less connected with macroeconomic mismanagement. As foreign capital would be rapidly exiting the country, it would need a quick short-term liquidity injection. Theoretically, this "innocent bystander" would, therefore, not need rigorous policy adjustments and conditionality. Meanwhile, the assumption for the second objective was that something could go wrong with macroeconomic policy. In such an event, BSA donors would rely on an IMF-supported

<sup>43</sup>Krauss and Pempel (2000).

<sup>44</sup>ASEAN countries strongly argued that providing "short-term liquidity support" should be included in the CMI's objectives during the discussion after May 2000, in addition to the objective of "supplementing the IMF."

program to adjust the recipient's policy in a more desirable way. The objectives of CMI were later relayed without change to the CMIM created in 2010 onward.

The BSA participants were the five original members of ASEAN — Indonesia, Malaysia, the Philippines, Singapore, and Thailand — and China, Japan, and Korea. The five newer members of ASEAN — Brunei, Cambodia, Lao People's Democratic Republic (Lao PDR), Myanmar, and Vietnam — did not participate in the CMI on the ground that the possibility of so-called “capital account crises” was low for them. This was because these economies were still not deeply integrated with global markets, and so there were less pull factors for short-term capital flows in the early 2000s. Thus, concessional lending by other IFIs was more appropriate for most of them at the time.<sup>45</sup>

### Financing Design and Size

Contracting parties to the BSAs enjoyed flexibility in designing each individual swap according to specific needs. Unlike ordinary BSAs among central banks, ASEAN+3 had developed rules and procedures to govern BSAs for a collective influence from the start. These included conditions for BSA activations, linkages to the IMF program, and maturity and interest rates. These were gradually modified and finalized at the meeting in Hyderabad, India in 2006.<sup>46</sup> This half-baked collective nature was later addressed by consolidating BSAs into a single agreement, the CMIM, in 2010.

Most CMI participants opted for a BSA (currency swap) between the US dollar and their local currencies, or between local currencies,<sup>47</sup> governed bilaterally by swap donors and recipients.

The total size of BSAs stood at USD 36.5 billion in May 2004 and increased to USD 84 billion by the end of 2007. This amount was over twice

<sup>45</sup> All those nonparticipants to CMI BSAs have participated in the CMIM since 2010.

<sup>46</sup> The Joint Ministerial Statement of the 9th ASEAN+3 Finance Ministers' Meeting, held on May 4, 2006 in Hyderabad, India.

<sup>47</sup> Available types of financing arrangement included a repurchase agreement of US Treasury securities and repurchase agreement of sovereign securities denominated in local currency. Under repos, one party sells eligible securities for cash to a counterparty with the understanding that the securities will be repurchased in future. Since the transaction is a security-for-cash deal, it takes the nature of a loan with the security providing the collateral. Similar to the BSA, the repos were to be concluded by two parties as a bilateral arrangement. However, unlike currency swap for US dollars, it is unknown how many repos were arranged and what terms and conditions were under the CMI. The CMI participants focused their discussion on BSAs to provide US dollar liquidity support.



**Table 26.5: Network of BSAs Under the CMI as of November 2007**  
(USD billion)

Donor	Recipient	China	Japan	Korea	Indonesia	Malaysia	Philippines	Thailand	Singapore	Committed Amount
China			RMB/JPY (3.0)	RMB/KRW (4.0)	4.0/IDR	1.5/MYR	RMB/PHP (2.0)	2.0/THB	...	16.5
Japan		JPY/RMB (3.0)		10.0/KRW JPY/KRW (3.0)	6.0/IDR	1.0/MYR	6.0/PHP	6.0/THB	3.0/SGD	38.0
Korea		KRW/RMB (4.0)	5.0/JPY KRW/JPY (3.0)		2.0/IDR	1.5/MYR	2.0/PHP	1.0/THB	...	18.5
Indonesia		...	...	2.0/KRW	...	...	...	...	...	2.0
Malaysia		...	...	1.5/KRW	...	...	...	...	...	1.5
Philippines		...	0.5/JPY	2.0/KRW	...	...	...	...	...	2.5
Thailand		...	3.0/JPY	1.0/KRW	-	-	-	...	...	4.0
Singapore		...	1.0/JPY	...	...	...	...	...	...	1.0
Receivable Amount		7.0	15.5	23.5	12.0	4.0	10.0	9.0	3.0	84.0
IMF SBA 1997 <sup>1</sup>		4.6	11.2	1.1	2.1	1.1	0.9	0.8	0.5	22.2
IMF SBA 2009 <sup>2</sup>		12.1	19.9	4.4	2.2	2.2	1.3	1.6	1.3	45.0

BSA = bilateral swap arrangement, CMI = Chiang Mai Initiative, IDR = Indonesian rupiah, IMF = International Monetary Fund, JPY = Japanese yen, KRW = Korean won, MYR = Malaysian ringgit, PHP = Philippine peso, RMB = renminbi, SBA = Stand-By Arrangement, SGD = Singapore dollar, THB = Thai baht, USD = United States dollar.

Notes:

<sup>1</sup> SDR = USD 1,357,710 as of December 1, 1997 IMF Stand-By Arrangement, annual access limit: 100 of quota.

<sup>2</sup> SDR = USD 1,491,920 as of January 30, 2009 IMF Stand-By Arrangement, annual access limit: 100 of quota, after quota reform in 2008.

Sources: Reports from ASEAN+3 Financial Cooperation Meetings.

what the IMF disbursed during the AFC and comparable to the proposed size of an AMF. In this network of swaps, the countries in crisis could borrow (purchase) pre-determined amounts of their counterparts' US dollar reserves for 90 days. This was renewable seven times for up to two years with government guarantees. These maturity and renewable times were adopted by the original CMIM in 2010 without change.

The initial drawdown and the first renewal after 90 days of maturity were set at 150 basis points (bps) over the London Interbank Offered Rate (LIBOR). Subsequently, a time-based rate was charged at additional renewals, specifically 50 bps for two renewals, capped at 300 bps. The swaps were not cheap, compared to ASA (LIBOR+25 bps). But it was accepted as reasonable at that time because it was meant to be a type of countercyclical financing. The applied charges from the IMF started from around 8.82% from the first tranche of the IMF loans during the AFC.<sup>48</sup> These rates were applied to the original CMIM in 2010.

### Timely Activation and Collective Nature

At the initial stage, activating the BSAs was entrusted to purely bilateral action. This gave rise to concerns over procedural delays in activation. Moreover, there was no guarantee that BSAs would be activated simultaneously by all donors as any providing country would be able to turn down the swap request or demand different terms and conditions. In response, the ASEAN+3 adopted a coordination mechanism in 2006, under which two coordinating countries would be appointed — one each from each of ASEAN and the Plus Three members on a rotation basis — and be in charge of administration and coordination.<sup>49</sup> A collective decision-making mechanism was also introduced in 2006. If consensus was not reached in two weeks, the next step was to make a decision by weighted voting rights within four weeks, allocated on a pro rata basis for swap providers. But it was not legally enforceable so that each party to BSAs could move ahead to lend, back out, or not lend, irrespective of the outcome of the collective decision-making process.

<sup>48</sup>Borrowing cost is calculated from IMF policy as of 1997, comprising 5.32% of basic rate (SDR interest rate 1997 4.32% + 1.00%), 3.00% of surcharge, and 0.50% of service charge. The IMF traditional surcharge policy was to encourage early repayment once borrowers regain access to private capital markets and to mitigate the risks to the IMF financing resources, associated with policy adjustment programs.

<sup>49</sup>The role of two coordinating countries was equivalent to the agent bank in the ASA.

ASEAN+3 introduced an opt-out clause while adopting the above-mentioned collective decision-making procedure. A member could choose to either provide a partial contribution or opt out due to exceptional financial circumstances, such as difficulties in maintaining balance of payments or insufficient safeguard measures. If so, the shortfall would be met by the remaining donors, subject to their maximum committed amount. These activation procedures have been generally reflected in the CMIM since 2010.

### IMF Linkage and Surveillance

The CMI introduced an IMF linkage as a condition for full access to individual bilateral swaps. This might seem at odds with the stigma associated with borrowing from the IMF. However, one of the two CMI objectives was to supplement IMF lending.<sup>50</sup> Second, there was growing understanding that the IMF had evolved ever since the AFC — enhancing financial market surveillance, adjusting quotas, and starting to review conditionality policy and lending facilities to reduce the stigma effect. Third, it was more realistic for potential swap donors to rely on the IMF's conditionality to address potential concerns over moral hazard and to ensure repayment capacity in terms of their domestic accountability to taxpayers in each country. Indeed, a regional surveillance process, called the Economic Review and Policy Dialogue (ERPD), was launched in May 2000. However, this was rather a forum for information sharing and peer pressure and not mature enough to conduct due diligence for recommending policies and monitoring the correction process. Lastly, the value of local currencies, swapped for US dollar liquidity support as quasi-collateral, was low, particularly because they would depreciate in crisis time and some local currencies were partly nonconvertible.

That said, CMI participants were faced with a contentious issue — the degree of linkage with the IMF. Potential donors insisted that swap arrangements be closely linked to IMF programs, while ASEAN countries preferred either weak linkages or none at all.<sup>51</sup> In April 2001, they agreed

<sup>50</sup>Unlike the AMF proposal, then IMF Managing Director Horst Köhler, at his opening remarks at the Japan National Press Club in Tokyo, Japan in January 2001, openly supported the CMI on the condition that it remained complementary to the IMF's financial assistance that would help undertake adjustment efforts (accessed on January 30, 2021, <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp011201>).

<sup>51</sup>Back in 1997, Malaysia chose to avoid an IMF program in the aftermath of the crisis and was therefore not happy with the IMF being introduced for the CMI.

the swap requesting party could immediately obtain short-term liquidity support for the first 10% of each BSA.<sup>52</sup> The so-called IMF de-linked portion was increased to 20% in May 2005.<sup>53</sup> This increase came together with the enhanced regional surveillance framework. The ERPD, the regional surveillance framework, was formally integrated into the CMI in anticipation of being utilized for actual operation of the CMI in 2005. This indicated that ASEAN+3 could go further to intensify the CMI's role in its sole operation by enhancing the CMI's surveillance function. The CMI created the institutional basis for regional financial cooperation on a solid basis, which could be further developed by its own efforts.<sup>54</sup>

### Conditions for Lending

Following the IMF linkage, swap donors would assess the economic and financial situation of a recipient and judge whether there was a reasonable prospect that an IMF program be established in the very near future, or if there would be no need for one. If the source of the liquidity problem was deeply associated with structural issues that would justify policy adjustments, swap donors could borrow credibility from the IMF. For judgment on the IMF de-linked portion, a surveillance process kicked in following the integration of the ERPD into the CMI process in 2005. A swap recipient was required to have “undertaken the implementation of sound economic measures to counter unusual downward pressure on foreign reserves” and “hold and maintain access to private market financing.”

### Assessment and the Path Toward the CMIM

Establishing the CMI by bilateral swaps was less burdensome than creating a monetary fund under a treaty. Participating central banks did not need

<sup>52</sup>It was reported that at the first discussion, China insisted the CMI be 100% linked to IMF programs without the IMF de-linked portion. ASEAN countries preferred no linkage to the IMF. Malaysia was particularly upset by the introduction of the IMF linkage at this stage since it did not go for an IMF program during the Asian crisis. Under pressure from then Malaysian Prime Minister Mahathir Mohamad and other prospective borrowers, it was agreed that participants could borrow 10% of funds from CMI BSAs without an IMF program for up to six months (Bergsten and Park 2002).

<sup>53</sup>It was reported that ASEAN countries, including Thailand and Malaysia, wanted the IMF de-linked portion to be increased to 50%.

<sup>54</sup>Nemoto Yoichi, the former ASEAN+3 Macroeconomic Research Office Director during 2012–2016, argued that “the pursuit of economic surveillance and policy dialogue might lead the ASEAN+3 authorities to construct tailored conditionality distinct from what the IMF critics called one-size-fits-all conditionality” (2003).

legislative ratification to establish swaps with each other. It was inexpensive to maintain swaps because central banks keep reserves on hand, without transferring a portion of reserves. There were many precedents for swaps — for example, the ASA — which made them less problematic to potential objectors inside or outside the region. The US alone has entered into over 115 swaps between the creation of the Exchange Stabilization Fund in 1934 and 1995.<sup>55</sup> The CMI was an outcome of a process of trial and error and that might have brought about a degree of imperfection. No CMI swap was ever activated. CMI participants lacked confidence in it and continued to stockpile foreign exchange reserves to self-insure themselves.

There were a few reasons for this. First, the CMI lacked financing certainty as it was only a stand-by, unfunded arrangement. Each swap donor had full discretion over whether or not to release liquidity. Second, each swap was just a bilateral contract between two authorities. To mobilize funds during crises, a swap requesting party had to be involved in time-consuming negotiations with multiple counterparties. A coordination process and collective decision-making was adopted in 2006. However, as these were not legally mandated to be reflected in individual swap arrangements, it was not sufficient to ensure timely liquidity support in crisis time. The need for a rule-based activation process was even more pertinent when there were multiple requests for funding as the crisis could be contagious. Third, an IMF program was required to be in place to access the full swap quota in the CMI BSAs; the issue of IMF stigma made members reluctant to go into CMI BSAs linked to an IMF-supported program.

## The CMIM

Over the past decade, the CMIM, which provides insurance against financial shocks and contagion effects and supplies rapid and large-scale emergency financing in case of crises, has been a key component of the ASEAN+3 finance process. The CMIM is an incremental advancement on the pre-existing network of bilateral swaps of the CMI but not a full-fledged monetary fund, as the term “multilateralisation” in its name denotes.

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<sup>55</sup>See note 39.

## Changed Circumstances in 2005

ASEAN+3 members first announced the CMIM process in May 2005 while confirming to increase the IMF de-linked portion of BSAs from 10% to 20%. This was a regional collective voice that requested the IMF to undertake more reforms, particularly in terms of its governance structure for relatively fair representation of the ASEAN+3 economies.<sup>56</sup>

“We called for an urgent review of the quota of the Asian countries in the IMF to properly reflect the current realities and their relative positions in the world economy. This would strengthen the mutual understanding between Asia and the IFIs.”<sup>57</sup> (Joint Ministerial Statement of the AFMM+3, 2005, Istanbul, Turkey)

It is true that representation is not just about voting power, but it is also related to the persuasiveness of arguments.<sup>58</sup> Despite it, formal voting procedures have had a key influence over decision-making in the IMF because power relationships are determined by relative voting strength. The intent for the CMIM process itself might have fueled some skeptics’ concerns in the IMF. However, those concerns were alleviated by the fact that the CMIM process would be incremental, the CMIM would keep the IMF linkage, and the IMF regularly participates in the biannual ASEAN+3 deputies’ meetings, which would continue.<sup>59</sup> Back then, Indonesia, Thailand, and Korea had just emerged out of IMF programs, harboring IMF stigma. These countries, along with other neighbors, fully supported the CMIM process. By 2005, though, China had become one of the world’s largest foreign exchange reserve holders and an increasingly key player in the ASEAN+3 region, which incentivized it to invest more in regional cooperation to help avert a regional crisis.

<sup>56</sup>Decisions in the IMF are taken either as consensus or with special voting majorities (usually 85%). Back in 2005, while the US and Europe as a bloc possessed a veto over decisions requiring 85% majority, the ASEAN+3 region did not have such a veto with 13% of the total voting powers. Since the 14th quota review took effective on January 26, 2016, the share of ASEAN+3 voting powers in the IMF has reached 18.15% and thus the ASEAN+3 economies have acquired veto power collectively.

<sup>57</sup>Japan’s Finance Minister, Mr. Sadakazu Tanigaki, already requested for fairer representation of East Asian countries in the IMF quota at the 11th meeting of the International Monetary and Financial Committee (IMFC) held on April 16, 2005. This statement was conveyed to the Joint Ministerial Statement of the AFMM+3 in 2005 ([https://warp.ndl.go.jp/info:ndljp/pid/11194366/www.mof.go.jp/english/international\\_policy/imf/imfc/20050416st.htm](https://warp.ndl.go.jp/info:ndljp/pid/11194366/www.mof.go.jp/english/international_policy/imf/imfc/20050416st.htm)).

<sup>58</sup>Fischer (2001).

<sup>59</sup>Ciorciari (2011).

## Lessons from the GFC

The global financial crisis (GFC) reminded the ASEAN+3 economies of contagion risk problems. It also highlighted that even countries with strong economic fundamentals could face short-term liquidity pressures stemming from unanticipated events outside of their control. Domestic policy options were largely insufficient and inefficient in the face of massive volatility of capital flows and an additional buffer for liquidity supply was needed.<sup>60</sup>

But the CMI was not tapped. Experts noted there were inherent weaknesses in the CMI's institutional setting.<sup>61</sup> Besides, the total size of BSAs reached only USD 84 billion at the end of 2007. While the sum would have been sufficient to cover the IMF's financing portion in tackling the AFC, it would have been insufficient in addressing the impacts of the GFC. This raised concerns over the CMI in preventing a speculative attack and calming market nervousness. Then Thai Finance Minister Chalongphob Sussangkarn described the CMI as "more symbolic than truly effective."<sup>62</sup> It was the USD 30 billion bilateral currency swap arrangement with the US Federal Reserve in October 2008 that had an immediate, stabilizing effect on the financial markets in Korea.<sup>63</sup> Singapore also established a swap line of USD 30 billion with the US Federal Reserve to relieve pressures in global funding markets in October 2008.<sup>64</sup>

## A More Effective Regional Liquidity Mechanism

When the CMI was launched in 2000, ASEAN+3 members recognized that a network of CMI bilateral swaps was a very loose form of crisis financing.

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<sup>60</sup>In 2008, Korea was in a better position to weather financial distress as compared to the position before the AFC, supported by ample foreign reserves, improved policy frameworks, and limited exposure to "toxic assets" such as mortgage-backed securities originating in advanced economies. However, given its trade and financial integration with the rest of the world, market confidence in Korea deteriorated severely, investors began to repatriate funds from Korea in a "flight to quality" as global deleveraging intensified, and global economic growth slowed. By November 2008, the Bank of Korea had lost large amounts of reserves, the Korean won had depreciated rapidly, and the stock market had collapsed.

<sup>61</sup>Kawai (2015).

<sup>62</sup>Sussangkarn (2010).

<sup>63</sup>Korea also entered into bilateral swaps with the Bank of Japan and the People's Bank of China in December 2008. In 2009, the low won helped export recovery and reserve accumulation and the Korean won began to restore its value gradually in 2009 (see note 61).

<sup>64</sup>However, Indonesia failed to get a similar swap from the US and turned to bilateral swaps with China and Japan. The experience of Indonesia made it clear that the Fed swap would not be always available, particularly to developing economies (Sussangkarn and Chalongphob 2011).

In response, individual BSAs of the CMI were consolidated into a single arrangement by multilateralisation in 2010. Since then, members have been collectively committed to providing emergency financing and its certainty has improved. Second, a weighted voting system and a coordination process have been institutionalized for efficient activation. Third, the initial CMIM's size was set at USD 120 billion in 2010, which was increased to USD 240 billion in 2014. ASEAN+3 has continuously increased the IMF de-linked portion from the initial 20% to 30% of each member's swap quota in 2014 and to 40% in March 2021.

Through the CMIM process, ASEAN+3 members created an institutional basis for regional cooperation in a more concrete way, which can be further developed by its own efforts. In particular, the CMIM has brought about a permanent regional institution for regional surveillance in support of its operation, called the ASEAN+3 Macroeconomic Research Office (AMRO). Since 2011, AMRO has complemented the CMIM by conducting economic surveillance of member economies and the region as a whole, and supports the CMIM's operation.

There was still no central secretariat for the CMIM process. The ASEAN+3 authorities instead launched the CMIM Taskforce (TF) in November 2006 to function as the focal point of discussion in hammering out details. The "ASEAN Way" of seeking consensus was preferred at each stage of the discussion, which, though sluggish, has helped secure general agreement among members. A strong commitment to "consensus" helped avoid leaving small members stranded and added to their collective influence. The multilateralisation process continued for five years starting from 2005. The original CMIM Agreement came into force on March 24, 2010.<sup>65</sup> (See Annex: Progress on the CMIM and Further Developments.)

## **Main Features of the CMIM as a Regional Liquidity Mechanism**

### **Participants and Modest Objectives**

The CMIM has inherited two objectives of the CMI without change: (i) address short-term liquidity difficulties in the region as a regional self-help mechanism and (ii) supplement existing international financial

<sup>65</sup>The original CMIM Agreement became effective after 90 days from the date on which CMIM parties of all Plus Three countries and five or more ASEAN countries completed signing.



arrangements.<sup>66</sup> The first is to maintain regional autonomy so that the CMIM, in its sole operation, is able to promptly decide whether immediate action is needed. ASEAN+3 has, thus, gradually increased the IMF de-linked portion to 40% of each member's swap quota while enhancing regional surveillance functions. Following the second objective, the CMIM has made it abundantly clear that it is not an alternative to the IMF but is instead supplementing IMF lending, being a part of the global financial safety net (GFSN) that places the IMF at its center. Technically, the function of a self-help mechanism — which may suggest some form of competition with the IMF — is limited to the size of the IMF de-linked portion.

Unlike the CMI, the CMIM includes all ASEAN+3 financial authorities, particularly the five newer members: Brunei, Cambodia, Lao PDR, Myanmar, and Vietnam.<sup>67</sup> Hong Kong also joined the CMIM, only at the deputy level, not at the ministerial level.

### **Financial Arrangement — Lightness in the Form of Multilateralisation**

The top priority in the CMIM process was to enhance the certainty of financing in times of crisis. It created a single contractual arrangement under which ASEAN+3 agreed to certain collective principles and procedures. To determine how the members would mobilize and disburse funds, three options were suggested in 2006: (i) earmarking akin to the ASA, (ii) self-managed reserve pooling arrangement (SRPA) modeled after the European Monetary Cooperation Fund (EMCF),<sup>68</sup> and (iii) centrally managed reserve pooling with upfront funding. At the first round of discussions in early 2007, the second option was adopted, which would form a virtual fund as an accounting arrangement, with a separate legal entity under a uniform agreement. Each monetary authority would transfer the legal title of ownership of a certain amount of its reserve assets to a virtual fund. In return, each central bank would obtain a claim on the fund while retaining full powers in managing pooled reserves.

<sup>66</sup>The Joint Ministerial Statement of the 10th ASEAN+3 Finance Ministers' Meeting May 5, 2007 in Kyoto, Japan.

<sup>67</sup>Chabchitrichaidol, Nakagawa, and Nemoto (2018).

<sup>68</sup>Established in 1973, one of the EMCF's functions was to provide short-term financing between central banks, leading to a concerted policy on reserves. The Fund was dissolved on January 1, 1994 when its roles were taken over by the European Monetary Institute, while the Bank for International Settlements continued to operate as an agent for a transitional period until May 15, 1995.

The SRPA model could offer greater financing certainty than earmarking could. Some members' concerns about the depletion of reserves and the differing priorities of reserve investments were allayed because the pledged amount would continue to count as part of each authority's reserves. In 2009, however, the SRPA model was dropped<sup>69</sup> mainly because some jurisdictions did not allow central banks to transfer legal ownership of the reserve assets to a nondomestic entity without an international legal personality or to exchange promissory notes with each other. They also recognized that setting up an SRPA would take up a great deal of time and slow down the CMIM process in the context of the GFC. Instead, it was agreed that the monetary authorities would issue to and exchange commitment letters with each other. The CMIM is now a relatively decentralized financing arrangement, as a stand-by and unfunded liquidity arrangement, similar to earmarking.

### Legal Modality

Three options were considered for a legal modality, in line with the options for financial arrangement: (i) memorandum of understanding (MOU), (ii) contractual agreement, and (iii) treaty. Amid the GFC, members did not consider it realistic to establish an international organization either for financing arrangements or for economic surveillance. The second model — a private contractual agreement — was adopted for the CMIM, to which the contracting parties would be participating central banks and finance ministries.<sup>70</sup> Under this model, members' commitment was legally binding through the jurisdiction of English law, but it did not require an additional ratification process by "sovereign states" as is required by a treaty. The CMIM Agreement, however, does not have the legal status of a law in each member country's domestic jurisdiction, unlike a treaty. At the same time, it was perceived to be accompanied with a lesser degree of commitment than would be the case with a treaty.<sup>71</sup>

<sup>69</sup>During the final round of discussion, the term SRPA was deleted from the draft CMIM Agreement in 2009.

<sup>70</sup>AFMM+3, Kyoto, May 2007.

<sup>71</sup>Separately, in relation to the CMIM's available size, whether to allow the CMIM to borrow was discussed. This issue was related to the issue of forms of financing arrangements and legal modality. The CMIM would be able to borrow from markets only when it would become an independent legal personality.

## Financing Design: Total Size, Shares, and Voting Power

A bigger-sized crisis financing facility is desirable to cope with simultaneous requests for funds, but it needs to be balanced with members' capacity to contribute. In 2008, the planned CMIM's total size was set at USD 80 billion. Following the GFC, it was increased to USD 120 billion in February 2009.<sup>72</sup> This amount further increased to USD 240 billion in 2014.

In terms of the contribution ratio of individual members, three options were proposed in 2007: (i) IMF quota formula, (ii) United Nations contribution formula, and (iii) tiered contributions. By any means, China and Japan would account for more than four-fifths of the contribution in terms of their economic size, substantial holdings of reserves, or openness in trade and finance. China and Japan agreed to go "underweighted" relative to their economic size. Thus, a tiered contribution model was adopted in 2008. Members noted that other arrangements such as the ASA, the EMCF, and the Latin American Reserve Fund (FLAR) had also adopted a tiered contribution structure.

In this model, members are first categorized into groups based on the sizes of their economies and their capacity to pay. Thereafter, a factor of fair representation was also considered. As such, contribution shares of the ASEAN and Plus Three countries were firstly set at a 20:80 ratio<sup>73</sup> and then individual members' shares were determined in each tiered group. This made it possible to allow for meaningful shares for smaller economies, achieving a degree of equity between members and helping avoid one single leadership. As a consequence, the original five ASEAN members had an equal share of 3.793% each. This was in line with a guiding principle of consensus on the "ASEAN Way" that member states should be equal in decision-making, rather than relying on a notion of "hegemonic stability."<sup>74</sup>

Both China and Japan sought to be the largest contributor to the CMIM and to have corresponding influence and standing.<sup>75</sup> To resolve the deadlock, the Plus Three countries reached an agreement on their shares through

<sup>72</sup>Joint Media Statement, Phuket, Thailand, February 2009, "Action Plan to Restore Economic and Financial Stability of the Asian Region" (<https://www.amro-asia.org/joint-media-statement-action-plan-to-restore-economic-and-financial-stability-of-the-asian-region/>).

<sup>73</sup>AFMM+3 Joint Ministerial Statement, Madrid, Spain, May 2008.

<sup>74</sup>Ciorciari (2011) (see note 59).

<sup>75</sup>Kuroda and Kawai (2002); Grimes (2011).

negotiations. Japan would provide 32% of the funds and be the largest single contributor. China was allowed to bring Hong Kong into the arrangement as a separate member, and together they would contribute 32%. With Hong Kong as part of its team, China became one of the two “co-equal largest contributors.”<sup>76</sup> Korea, meanwhile, would contribute 16% of the funds.

Voting power was also a contentious issue. There was a need to alleviate ASEAN’s concerns around dominance by the Plus Three members in the Executive Level Decision Making Body’s (ELDMB’s) day-to-day decision-making, including the approval of swap requests. Voting power was based on the sum of “basic votes,” equally distributed, and the “votes based on contribution.” As a result, ASEAN countries were able to have more voting power (28.41% in total) than their financial contribution (20%), whereas the Plus Three’s voting power (71.59% in total) was smaller than its financial contribution (total of 80%). Given the majority two-thirds voting system in the ELDMB, no single member has been given a veto. This has enabled individual ASEAN governments to raise their voice as a unified group in negotiations and to avoid leaving individual members stranded in negotiations.

### **Borrowing Quota — Demand Side**

Regarding the maximum amount (swap quota) that members could borrow, two options were discussed: (i) one single multiple of commitment for all members and (ii) tiered multiples according to the size of commitment. The second option was chosen in 2009 as it met the different financing needs of members — a higher multiple was assigned to members with smaller contributions.

### **Collective Decision-Making and Activation Procedures**

A two-tier decision-making structure was introduced in 2007 with separate responsibilities among representatives from finance ministries and central banks. Fundamental issues, including total size, contribution, borrowing multiples, membership and terms of lending, and the like, are to be determined by “consensus” approval by finance ministers and central bank governors.<sup>77</sup> One

<sup>76</sup>Ciorciari (2011).

<sup>77</sup>In May 2011, ASEAN+3 finance ministers agreed to invite central bank governors to ASEAN+3 meetings from 2012. Following this, the amended CMIM Agreement to include central bank governors in the Ministerial Level Decision Making Body (MLDMB) became effective in July 2014.

**Table 26.6: Financial Contribution  
(After the First Amendment of 2014)**

ASEAN+3 Members	Financial Contribution		Purchasing Multiple	Maximum Arrangement Amount (USD billion)	Basic Votes (No. of votes)	Votes Based on Contribution (No. of votes)	Total Voting Power	
	(USD billion)	(Percent)					(No. of votes)	(Percent)
China	China (excluding Hong Kong)* 68,400	28,500 32,000	0.5	34.20	3.20	68,400	71,600	25,430
	HK 8,400	3,500	2.5	6.30	0.00	8,400	8,400	2,980
Japan	76,800	32,000	0.5	38.40	3.20	76,800	80,000	28,410
Korea	38,400	16,000	1.0	38.40	3.20	38,400	41,600	14,770
<b>Plus 3</b>	<b>192,000</b>	<b>80,000</b>		<b>117.30</b>	<b>9.60</b>	<b>192,000</b>	<b>201,600</b>	<b>71,590</b>
Indonesia	9,104	3,793	2.5	22.76	3.20	9,104	12,304	4,369
Thailand	9,104	3,793	2.5	22.76	3.20	9,104	12,304	4,369
Malaysia	9,104	3,793	2.5	22.76	3.20	9,104	12,304	4,369
Singapore	9,104	3,793	2.5	22.76	3.20	9,104	12,304	4,369
Philippines	9,104	3,793	2.5	22.76	3.20	9,104	12,304	4,369
Vietnam	2,000	0.833	5.0	10.00	3.20	2,000	5,200	1,847
Cambodia	0.240	0.100	5.0	1.20	3.20	0.240	3,440	1,222
Myanmar	0.120	0.050	5.0	0.60	3.20	0.120	3,320	1,179
Brunei	0.060	0.025	5.0	0.30	3.20	0.060	3,260	1,158
Lao PDR	0.060	0.025	5.0	0.30	3.20	0.060	3,260	1,158
<b>ASEAN</b>	<b>48,000</b>	<b>20,000</b>		<b>126.20</b>	<b>32.00</b>	<b>48,000</b>	<b>80,000</b>	<b>28,410</b>
<b>Total</b>	<b>240,000</b>	<b>100,000</b>		<b>243.50</b>	<b>41.60</b>	<b>240,000</b>	<b>281,600</b>	<b>100,000</b>

ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic, USD = United States dollar.

\*Hong Kong's purchasing is limited to the IMF de-linked portion because it is not a member of the IMF.

Source: Author's calculations based on Joint Statements of the ASEAN+3 Finance Ministers' Meeting in Tashkent, Uzbekistan in May 2010, and Manila, the Philippines in May 2012.

level below them is an ELDMB in charge of day-to-day decisions, comprising the deputy-level representatives. The ELDMB decision includes the activation of the CMIM swap, which needs a two-thirds majority of effective votes.

The CMIM does not have a formal secretariat in charge of all aspects of activation. Instead, two coordinating countries are appointed each year to oversee the decision-making process. The difference in coordination is assisted by AMRO's technical secretariat support, if requested, and the process becomes legally enforceable, unlike in the CMI's case. In exchange for adopting legally binding collective decision-making, the CMIM also allows each party to opt out from contributing to a swap request. However, it must be approved in advance by the ELDMB's voting. In exceptional cases such as an extraordinary event or in the event of force majeure and domestic legal limitations, however, opting out is still possible without obtaining the ELDMB's approval.<sup>78</sup> If one or more participants opt out and the swap is still approved, others must make up the difference, provided this additional burden does not exceed their contribution limits. The CMIM inherited activation procedures set by the CMI BSAs in 2006, but it has consolidated them. Still, it remains relatively decentralized and "institutionally light" compared to peer RFAs.

### **Financing Terms, Interest Rates, and Maturity**

The CMIM has followed most financial terms for CMI BSAs. A CMIM party that intends to request for drawing has to meet a set of conditions precedent — substantive and procedural — before the vote to approve a swap request. These include the completion of a review of the economic and financial situation of the swap recipient and no events of default. After the disbursement of funds, the recipient is obliged to comply with a set of covenants. For example, each CMIM party needs to submit periodic surveillance reports, with AMRO's support, and to participate in the regional surveillance process, that is, the ERP, convened bi-annually.<sup>79</sup> In determining financing conditions, the term "conditionality" was avoided in the original CMIM in 2010. Even if it was economically justified and had "buy-in" from a borrower, it was thought that it could result in associations being drawn with the IMF stigma.

<sup>78</sup>From Annex 1 of the Joint Ministerial Statement of the 13th ASEAN+3 Finance Ministers' Meeting in Tashkent, Uzbekistan on May 2, 2010.

<sup>79</sup>Joint Statement of the 13th ASEAN+3 Finance Ministers' Meeting on May 2, 2010, Tashkent, Uzbekistan.

The CMIM bears above-market interest rates resulting from its nature of countercyclical liquidity support in times of crises. Interest rates of CMIM funds equal to 1.5% plus the LIBOR, increasing by 0.5% each 180 days to a maximum of LIBOR + 3.0%.<sup>80</sup> Under the original CMIM in 2010, drawings under the IMF-linked portion had a maturity of 90 days, renewable up to seven times so that the maximum supporting period was just two years. The IMF de-linked portion had the same maturity but was renewable up to three times so that the maximum supporting period was only one year.

### IMF Linkage — IMF De-Linked Portion

The CMIM took over the IMF linkage as well from the CMI. In late 2007–2008, the ASEAN+3 authorities had another chance to determine the extent of IMF linkage for multilateralisation. Three options were on the table: (i) initial drawdown of up to 20% of borrowing quota without IMF programs, (ii) pre-approved initial drawdown of up to 50% without IMF programs, and (iii) completely de-linked from IMF programs. The first option was agreed upon in which a swap recipient would be able to draw down only 20% of each member's swap quota without IMF linkage.<sup>81</sup> The second and third options were available upon pre-qualification assessments, but at that time, the prospect for having a robust surveillance function for pre-qualification was not clear.<sup>82</sup>

Dissenting views to the first option were that (i) the initial tranche of funds — 20% of each borrowing quota — might be smaller than needed, (ii) if linked to an IMF program, it would take a longer time before disbursement from the second tranche, and (iii) the linkage would limit the autonomy of the region as well. On the other hand, there were concerns that RFAs, including the CMIM, would hand out easy money and undermine economic discipline and reform.

This is the issue of moral hazard — specifically “facility shopping” or “conditionality shopping,” which could discourage borrowers' anti-crisis actions, lower the efficiency of using creditors' resources, and dampen repayment capacity. A solution was that the CMIM, following the CMI, would outsource the negotiation of conditionality unless such a function

<sup>80</sup>Hill and Menon (2012).

<sup>81</sup>Joint Media Statement, Phuket, Thailand, February 2009.

<sup>82</sup>The gradual increase of the delinked portion to 30% in 2014 and 40% in 2020 has been achieved by enhancing the regional surveillance function of AMRO and conditionality framework.

was well developed within the CMIM itself.<sup>83</sup> The original CMIM explicitly stipulated it would establish an independent regional surveillance unit. It noted that the CMIM's role, as a regional self-help mechanism, was further intensified by enhancing the economic surveillance function. It was hinted that the de-linked portion could increase to above 20% when a surveillance and monitoring mechanism would become better. This materialized with the creation of AMRO in 2011, a surveillance arm of CMIM, and the IMF de-linked portion was gradually increased.

Most other RFAs also require IMF involvement in their lending operations either explicitly or implicitly.<sup>84</sup> The CMIM may operate by itself to the extent of the IMF de-linked portion without an IMF-supported program. The difference from other RFAs lies in that to access beyond the IMF de-linked portion, the CMIM requires an IMF-supported program to be in place as one of the legal conditions.

### **Three Amendments to the CMIM (2012–2021)**

Through the GFC, ASEAN+3 has continually sought to address the remaining gaps of the original CMIM's limited function as a crisis lender.<sup>85</sup> In May 2012, ASEAN+3 countries unanimously agreed to amend the original CMIM Agreement, which became effective in July 2014 after members signed the amended CMIM Agreement.

The second amendment in 2015–2020 focused on adjusting CMIM's financing terms in line with the IMF facilities and addressing remaining legal ambiguities. For instance, a confidentiality clause was clarified to allow CMIM-related information to be used for media coverage to help bolster market confidence when the CMIM is activated. In 2021, a much-awaited increase of the IMF de-linked portion from 30% to 40% became effective, together with the adoption of the CMIM conditionality framework. CMIM members also decided to use the members' local currencies for CMIM crisis financing, in addition to the US dollar.

<sup>83</sup>Eichengreen (2010). The IMF linkage is called a “nesting strategy” — nesting CMIM in the international financial system with the IMF at the center. This enabled shifting tough choices to the IMF, while reducing the risk that imposing conditionality would lead to political objections. See Grimes (2011).

<sup>84</sup>A member of the BRICS Contingent Reserve Arrangement (CRA) can request more than 30% of its maximum access only if a corresponding IMF program is in operation. The US Treasury portion of North America Framework Agreement (NAFA) requires an IMF letter expressing confidence in the economic policies of the borrower before activating the swap line.

<sup>85</sup>ADBI (2010).



## Financing Design: Doubling the Size and Use of Local Currency

Some members' swap quotas under the USD 120 billion of the CMIM size were modest, compared to the USD 157 billion package for Greece or the USD 121 billion package for Ireland during the GFC. The 2014 amendment doubled the size of the CMIM to USD 240 billion, while leaving contribution shares, purchasing multiples, and voting powers unchanged.

Another breakthrough in 2021 was the members' decision to allow the use of local currencies, in addition to the US dollar, for CMIM crisis financing. This provides more funding options for members and lowers their burden to draw from their international reserves. The decision was made in the context of the growing demand for local currency usage in regional cross-border transactions, several mutual agreements on initiatives relating to promotion of local currency usage, and a greater role for local currencies as reserve currency.<sup>86</sup>

## New CMIM Facility for Crisis Prevention

The ASEAN+3 introduced a crisis prevention facility called the CMIM Precautionary Line (CMIM-PL).<sup>87</sup> When a request for a CMIM-PL is approved, swap lines will be established between a recipient and donors. The recipient may make a drawing of US dollars from the swap lines upon prior notice without another ELDMB's approval.

In financial crises, as much as in illness, an ounce of prevention is worth a pound of cure. The CMIM-PL was introduced on the understanding that the qualifying member, in the face of potential liquidity pressure, would have implemented sound macroeconomic policies and would regain economic soundness, although it may still display moderate vulnerabilities. Thus, more emphasis was placed on ex-ante conditionality — modeled after the IMF precautionary facilities. This would enable the CMIM members to act pre-emptively in order to mitigate contagion and to minimize the costs of crises.<sup>88</sup>

The ERPD Matrix framework was endorsed in 2019. This framework is used for ex-ante qualification criteria upon any member's request for access to the CMIM-PL. AMRO contributed to developing qualification criteria

<sup>86</sup>Sussangkarn, Shimizu, and Kim (2019).

<sup>87</sup>The ASEAN+3 Informal Seminar for the Deputies on "A Possible Crisis Prevention Function for CMIM," July 22, 2011 in Tokyo, Japan; CMIM TF on September 14, 2011 in Bali.

<sup>88</sup>The ASEAN+3 Informal Seminar for the Deputies on "A Possible Crisis Prevention Function for CMIM," July 22, 2011 in Tokyo, Japan; CMIM TF on September 14, 2011, in Bali, Indonesia.

following explicit instructions from the ASEAN+3 authorities.<sup>89</sup> The process ensures that a CMIM member does not build up unsustainable imbalances during peace time. The adoption of the ERPD matrix framework indicates that the CMIM, particularly in its sole operation, will determine whether a requesting party has taken sound economic measures on its own for CMIM-PL.

**Table 26.7: CMIM Arrangements**

CMIM-SF	CMIM-PL
<ul style="list-style-type: none"> <li>• Currency swap for actual short-term liquidity and/or BOP difficulties</li> <li>• May attach ex-post conditionality</li> </ul>	<ul style="list-style-type: none"> <li>• Swap lines for potential short-term liquidity and/or BOP difficulties</li> <li>• Ex-ante qualification based on five areas and may attach ex-post conditionality</li> </ul>
<ul style="list-style-type: none"> <li>• For full swap quota, the ILP and financing terms must be consistent with the IMF</li> <li>• For the IDLP, there must be no prospect of IMF-supported programs being introduced, possibly evidenced by the assessment that a borrower has implemented “sound economic policies.”</li> </ul>	

BOP = balance of payments, CMIM = Chiang Mai Initiative Multilateralisation, CMIM-PL = CMIM Precautionary Line, CMIM-SF = CMIM Stability Facility, IDLP = International Monetary Fund de-linked portion, IMF = International Monetary Fund. Source: Author’s summary based on Joint Statements of ASEAN+3 Finance Ministers and Central Bank Governors’ Meetings.

### Financing Terms: Extending Maturity

The maturity period of 90 days, adopted from the time of the CMI BSAs, was a radical expression that the CMIM would also address “urgent short-term liquidity difficulties” on the assumption that a swap requesting party would be a “pure innocent bystander.” But the GFC showed that such a case is not entirely realistic because, as always, “innocence” is difficult to determine in a real situation. The 2014 amendment allowed the maturity to be extended from 90 days to 360 days for the IMF-linked portion, renewable twice. The supporting period for the IMF de-linked portion was increased from 90 to 180 days, renewable up to three times.

### Coordination with the IMF-Supported Programs

While the IMF-linked portion of the CMIM was intended to co-finance with the IMF since its creation in 2010, the operational specifics had remained unclear. A series of financing terms and conditions of the CMIM have been upgraded to enable it to fully match relevant IMF-supported programs. For

<sup>89</sup>See note 67.

instance, the supporting period is flexibly adjusted by allowing multiple renewals as needed, and disbursement dates can be switched to secure consistency with the IMF-supported program (Table 26.8).

**Table 26.8: Maturity and Duration of CMIM Arrangements**

Item	IMF-Linked Portion (ILP) (Up to 100%)	IMF De-Linked Portion (IDL) (Up to 40%)
<b>Maturity of Each Drawing Under CMIM-SF<sup>1</sup>/CMIM-PL<sup>2</sup></b>	360 days (For SF only, renewable multiple times following the matching IMF-supported program after 2020)	180 days (For SF only, renewable three times, up to 2 years)
<b>Swap Lines Under CMIM-PL<sup>2</sup></b>	180 days * ILP: renewable multiple times following the matching IMF-supported program after 2020; IDL: renewable up to three times, up to 2 years	

CMIM = Chiang Mai Initiative Multilateralisation, CMIM-PL = Chiang Mai Initiative Multilateralisation Precautionary Line, CMIM-SF = Chiang Mai Initiative Multilateralisation Stability Facility, IMF = International Monetary Fund.

<sup>1</sup> CMIM-SF (Stability Facility) means a crisis resolution facility in response to actual crises.

<sup>2</sup> CMIM-PL (Precautionary Line) means a crisis prevention facility in response to potential crises.

From 2016 to 2018, the CMIM and IMF conducted joint test runs (Box 26.1) to work out a cooperation mechanism in terms of burden sharing, financing conditions, and information sharing.<sup>90</sup> A set of CMIM operational guidelines was adopted for the information sharing process with the IMF, tuned to a coordination mechanism, in December 2018. This mechanism enables both sides to have a shared view of the policy adjustment path, financing needs, and the associating conditionality for the IMF-linked portion. The guidelines were prepared, referring to the 2011 Group of Twenty (G20) principles for cooperation between the IMF and RFAs, and the IMF policy on the exchange of documents between the IMF and RFAs.

### Increasing the IMF De-Linked Portion and CMIM Conditionality

The IMF de-linked portion was increased from the original 20% in 2010 to 30%, effective from July 2014, and to 40% in 2021. Members' growing faith in AMRO's surveillance and analytical capacity has supported the decision, which makes the CMIM more readily available as a self-help mechanism. The 40%

<sup>90</sup>Since 2013, the CMIM members have been conducting test runs annually. This is a simulation exercise of the activation of CMIM facilities based on a mock scenario. The test run has contributed to familiarizing members with CMIM activation procedures and identifying gaps in the operational readiness of the CMIM.

increase came together with the adoption of the CMIM conditionality. After the CMIM was created in 2010, there was uncertainty around whether CMIM liquidity support would be provided with any conditionality, particularly in its sole operation without an IMF linkage. The amendment in 2014 formally introduced a legal basis for CMIM-PL to attach conditionality. This legal basis expanded into the CMIM crisis resolution facility, called the CMIM-SF, in 2019. Following this, ASEAN+3 members viewed that adoption of the CMIM conditionality framework would be one of core prerequisites for further increasing the IMF de-linked portion.<sup>91</sup> Under this framework, AMRO will support the ELDMB to ascertain whether the potential borrower is broadly illiquid but solvent and to determine what policy adjustments are required.

There was an argument that neighbors in an RFA would likely not choose to impose painful conditions on one another.<sup>92</sup> While this remains

### **Box 26.1:**

#### **Lessons from the CMIM–IMF Joint Test Runs**

Under the CMIM, tapping more than a certain percent of the full swap quota (40% as of 2021) by any member (called the “IMF-linked portion”) is allowed only if an IMF-supported program is in place or is expected to be put in place in the very near future. For this IMF-linked portion, the CMIM needs to be “consistent” with the relevant IMF-supported program, mainly in its financing terms and program design. However, both sides had been silent on how to coordinate and bring consistency until 2016. The three joint test runs in 2016–2018 highlighted the issues that had to be addressed to ensure consistency and smooth operations. The test runs were based on a hypothetical setting in which a member experienced a shock that was large enough to require co-financing and needed both financing and policy adjustments.

##### **1. Consistency in financing terms**

The test runs revealed that a few specific CMIM financing terms were not compatible with those of IMF lending. While the maturity of IMF lending can be extended flexibly, the CMIM supporting period was fixed at three years. The CMIM had no basis for phased drawings in tranches. Following the IMF’s lending policy, the CMIM was required to provide “financing assurance” that CMIM be provided throughout the entire period of the IMF-supported program while accepting the “preferred creditor status” of the IMF in repayment.

##### **2. Collaboration process and information sharing**

Following the joint test run, CMIM members adopted a scheme of early information sharing in 2018. This enabled both institutions to come to a shared view of the policy adjustment path, financing needs, and the associated conditionality and program reviews. The IMF also endorsed a policy of “Exchange of Documents Between the Fund and Regional Financing Arrangements” in December 2017.

*continued on next page*

<sup>91</sup>The IMF approach to conditionality evolved since a review in 2009. This change might have laid a foundation for ASEAN+3 members to adopt a CMIM conditionality framework, finalized in 2020.

<sup>92</sup>See note 83.

Box 26.1: *continued*

### 3. Conditionality framework for the IMF-linked portion

The CMIM and the IMF applied the lead agency model during the joint test runs, which was proposed by the IMF in 2017 (“Collaboration between Regional Financing Arrangements and the IMF”). In this model, the IMF took the lead in preparing a macroeconomic framework and core policies and associated conditionality, while the CMIM focused on aspects within its areas of comparative advantage. Based on this experience, the CMIM, with the IMF’s support, developed a framework for program design and conditionality setting for the IMF-linked portion in 2020. This framework placed utmost emphasis on ensuring full accountability in the CMIM’s decision-making body. The IMF indicated that the lead agency model could evolve to become a “coherent program design model” as applied during its co-financing with the European Union authorities, provided CMIM/AMRO gain experience in program design and implementation.

to be seen in actual crisis situations, the CMIM has gradually taken steps to address such concerns.<sup>93</sup> At the same time, a technical guidance for program design and conditionality setting for the IMF-linked portion was separately adopted in August 2020 following lessons learned from CMIM-IMF’s joint test runs during 2016–2018 (Box 26.1).

## Future Developments of the CMIM

In the past decade, the ASEAN+3 authorities have improved the CMIM’s effectiveness in keeping with its two objectives: (i) a regional self-help mechanism and (ii) to supplement IMF lending. Both objectives have been achieved simultaneously, and not exclusively or at the expense of the other. The first has been achieved by multilateralisation itself, evolving from a network of BSAs, and increasing the IMF de-linked portion, underpinned by AMRO’s surveillance, and the conditionality framework. An assessment tool for ex-ante qualification for the CMIM-PL is already in place, called the ERPD matrix framework. Local currencies can be used for CMIM crisis financing, the detailed procedures for which are partly completed as of late 2021. In keeping with the second objective, an IMF linkage has been maintained. The CMIM held joint test runs with the IMF, bringing about an information-sharing mechanism and the CMIM conditionality framework for the IMF-linked portion.

## Evolving Circumstances and the Case for the CMIM

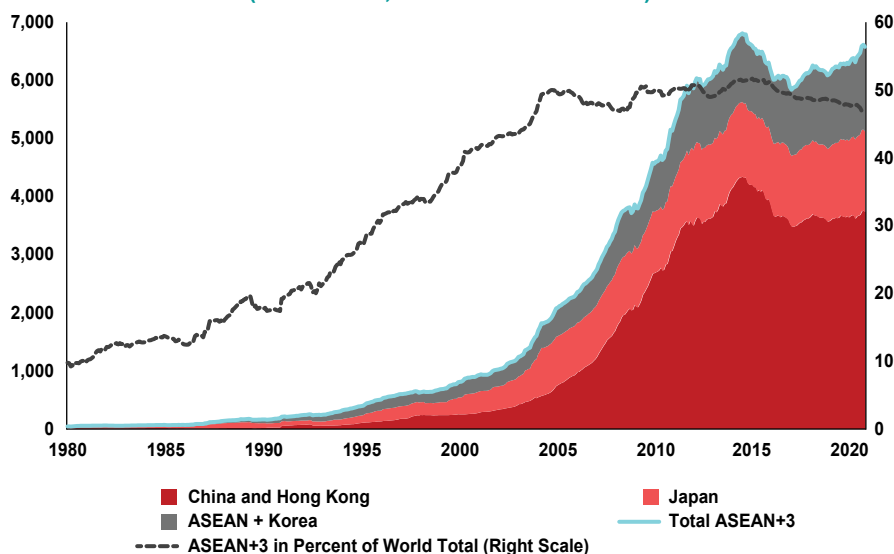
The ASEAN+3 region weathered the GFC better than other regions, backed by ample reserves and policy tools for relatively robust macroeconomic

<sup>93</sup>As evidenced in the case of the Greek experience with the troika, European neighbors did implement strong loan conditionality in accordance with the European Stability Mechanism treaty.

fundamentals. The ASEAN+3 policymakers have broadly implemented sound monetary policies, fiscal policies, and flexible exchange rates to manage capital flows since the AFC and GFC. Following the GFC, capital flow management measures and macroprudential measures have been widely adopted in East Asia. Such policy tools are important for crisis prevention. Separately, the ASEAN+3 economies have also accumulated large foreign reserves as self-insurance for possible financial crises.<sup>94</sup> Reserves remain the single most important form of financial insurance for most regional economies and help reduce the probability of a full-blown liquidity crisis.

Additionally, the number of BSAs among central banks outside the CMIM has proliferated since the GFC. Today, the total value of BSAs involving ASEAN+3 economies is around USD 373 billion, larger than the CMIM (based on AMRO staff calculations as of October 2021).

**Figure 26.1: ASEAN+3: Foreign Exchange Reserves**  
(USD billion; Percent of world total)



ASEAN = Association of Southeast Asian Nations.

Note: Data as of September 2020.

Source: International Monetary Fund via Haver Analytics; ASEAN+3 Macroeconomic Research Office staff calculations.

<sup>94</sup>A paper by Aizenman and Lee (2007) compares the importance of precautionary and mercantilist motives in the hoarding of international reserves by developing countries. Overall, empirical results support precautionary motives; in particular, a more liberal capital account regime results in increased international reserves.

The IMF will continue to be at the apex of the GFSN, playing a central role in emergency financing and policy coordination at the global level. The size of funds available for ASEAN+3 members, in the IMF stand-by arrangement under the normal access limit, has grown especially since the 14th IMF quota reform, effective from January 2016.<sup>95</sup>

**Table 26.9: Financing Size: CMIM versus IMF Loan  
(USD billion)**

ASEAN+3 Economies	IMF 1997	IMF 2010	IMF GFC	CMIM 2010	IMF 2020		CMIM 2020
	SBA 300% <sup>1</sup>	SBA 300% <sup>2</sup>	SBA 600% <sup>2</sup>	MAA	SBA <sup>3</sup> 435%	PLL <sup>3</sup> 500%	MAA
China	13.79	36.21	72.42	17.10	187.21	215.19	34.20
Hong Kong	...	...	...	3.15	...	...	6.30
Japan	33.57	59.58	119.17	19.20	189.29	217.57	38.40
Korea	3.26	13.10	26.20	19.20	52.71	60.59	38.40
Indonesia	6.10	6.70	13.41	11.38	28.55	32.81	22.76
Thailand	2.34	4.84	9.68	11.38	19.73	22.67	22.76
Malaysia	3.39	6.65	13.31	11.38	22.32	25.65	22.76
Singapore	1.46	3.86	7.72	11.38	23.90	27.47	22.76
Philippines	2.58	3.94	7.88	11.38	12.55	14.42	22.76
Vietnam	0.98	1.47	2.95	5.00	7.08	8.14	10.00
Cambodia	0.26	0.39	0.78	0.60	1.07	1.24	1.20
Myanmar	0.75	1.16	2.31	0.30	3.17	3.65	0.60
Brunei	0.61	0.96	1.93	0.15	1.85	2.13	0.30
Lao PDR	0.16	0.24	0.47	0.15	0.65	0.75	0.30
<b>Total</b>	<b>69.25</b>	<b>139.11</b>	<b>278.23</b>	<b>121.75</b>	<b>550.09</b>	<b>632.28</b>	<b>243.50</b>
<b>Total (excl. China and Japan)</b>	<b>21.89</b>	<b>43.32</b>	<b>86.64</b>	<b>82.30</b>	<b>173.58</b>	<b>199.52</b>	<b>164.60</b>

... = not available, ASEAN = Association of Southeast Asian Nations, CMIM = Chiang Mai Initiative Multilateralisation, GFC = global financial crisis, IMF = International Monetary Fund, Lao PDR = Lao People's Democratic Republic, MAA = maximum arrangement amount of CMIM swap quota, SBA = Stand-By Arrangement.

Notes:

<sup>1</sup> SDR = USD 1.357710 as of December 1, 1997.

<sup>2</sup> SDR = USD 1.49192 as of January 30, 2009.

<sup>3</sup> SDR = USD 1.41187 as of September 22, 2020.

Source: Author's calculations.

<sup>95</sup>On February 7, 2020, the Board of Governors of the IMF adopted a resolution concluding the 15th General Review of Quotas with no increase in IMF quotas. Instead of a quota increase, they decided to double the New Arrangements to Borrow, considering a further temporary round of bilateral borrowing beyond 2020 to maintain the Fund's lending capacity of about USD 1 trillion.

To get around the perceived stigma associated with IMF lending, the IMF's lending toolkits have also been reformed to provide precautionary lending, such as through the Flexible Credit Line (FCL) and Precautionary Credit Line (PCL).<sup>96</sup> In April 2020, the IMF introduced a new precautionary arrangement, called the Short-Term Liquidity Line (SLL), to fill a gap in the toolkits for short-term, moderate, and repeated potential capital flow volatility. With global uncertainty high and protracted, the SLL is designed as a swap-like liquidity facility for members with very strong policies and fundamentals to manage temporary liquidity shocks by providing assurances of quick liquidity provision and a signal of strength to markets. While the CMIM has become a more robust regional liquidity mechanism, other layers of the GFSN have been also strengthened.

As a regional mechanism for collective insurance, the fact that the CMIM has not been tapped does not necessarily mean it has become less important. In the face of possible crises, the value of the CMIM stems largely from its unique status as a regional self-help mechanism, supplementing the IMF. It serves as a regional financial stabilizer with ample resources, in addition to other financing resources. The CMIM is more cost-effective than individual self-insurance.<sup>97</sup> Regional ownership helps avoid the potential stigma associated with IMF borrowing. The CMIM, backed by AMRO's surveillance function, is expected to quickly address the regional spread of crises. The value of the CMIM as a regional financial safety net is confirmed along the following four lines of consideration.

First, traditional policy tools cannot fully substitute the liquidity backstop as it usually takes a relatively longer time to have an impact. It has been difficult to correct global economic imbalances through global policy coordination, partly due to political economy constraints. There is a limit in using capital flow management measures as well. The CFMs should be temporary and transparent, take spillover effects into consideration, and be

<sup>96</sup>Since the late 1990s, the IMF has considered facilities to help members with strong policies deal with financial market volatility. The first such facility was the Contingent Credit Line, established in 1999 after the AFC. The Short-Term Liquidity Facility was subsequently established during the GFC, and quickly replaced by the FCL and the PCL. The PCL was further replaced by the Precautionary Liquidity Line (PLL) in 2014.

<sup>97</sup>The costs can be divided into servicing cost, which is the difference between the return on reserves and the borrowing cost of the sovereign; the social opportunity cost of public capital, which is the difference between the yield on reserves and the social return on capital and a currency valuation risk. This is since reserves expose a central bank to capital losses should the domestic currency strengthen (Bank of England 2016).



reviewed regularly.<sup>98</sup> The effectiveness of macroprudential measures decreases over time due to market expectations.

Second, self-insurance remains the single most important form of financial insurance. However, holding excessive foreign reserves is less efficient, and entails potential systemic costs. In an actual crisis, self-insurance funds may not be fully tapped because a certain maximum level of reserves of a country would be often interpreted by the markets as the minimum level that the country needs to hold.<sup>99</sup>

Third, the BSAs in the region are distributed very unevenly. Most BSAs are either between the Plus 3 and ASEAN-5 countries, or between the ASEAN-5 countries themselves. A few smaller economies (Brunei, Cambodia, Myanmar, and Vietnam) are left outside of the BSA network. More fundamentally, simpler in format by nature, BSAs are less reliable for countercyclical liquidity support than the CMIM or IMF as they are more likely bound by domestic policy considerations.<sup>100</sup>

And finally, in addition to the stigma problem, the IMF has limitations in addressing any global crisis alone as the lender of last resort. This may be partly due to the overall size of the IMF's lending capacity, and ultimately because the IMF is not a global central bank that issues a global currency. Rather, it is an intermediary of global liquidity, mainly the US dollar as the key currency.

**Table 26.10: Four Layers of the Global Financial Safety Net**

FX Reserves for Self-Insurance	BSAs	RFA (CMIM)	IMF
Remains the single most important form of a safety net	Relatively quick to avail of, effective during the GFC	Designed for quick disbursements	Global insurance by a centralized party
An expensive safety net; hard to assess the adequacy of reserves	Subject to counterpart's domestic mandate (not for fiscal financing) due to credit risk borne by swap provider	Local knowledge by regional surveillance Limited to short-term liquidity problems in its sole operation	May take more time to negotiate ex-post lending conditions Negative signaling effects or stigma associated with use of IMF resources

BSA = bilateral swap agreement, CMIM = Chiang Mai Initiative Multilateralisation, FX = foreign exchange, GFC = global financial crisis, IMF = International Monetary Fund, RFA = regional financing arrangement.

<sup>98</sup>“G20 Coherent Conclusions for the Management of Capital Flows Drawing on Country Experiences” and “The Liberalization and Management of Capital Flows: An Institutional View,” November 14, 2012.

<sup>99</sup>Eichengreen and Woods (2016).

<sup>100</sup>IMF (2016).

The CMIM has been steadily reviewed and strengthened, but there remains room for further development in its financing arrangement and activation procedures.

### **Financing Design — Financial Arrangement**

The CMIM has brought about a degree of centralization by streamlining swap activation procedures in the CMI BSAs, adding an element of financing certainty.<sup>101</sup> At least, the likelihood that an individual member would choose not to release funds at a time of crisis is significantly reduced, compared to the CMI. This is because all members are formally committed to providing emergency financing. A weighted voting system in the ELDMB and AMRO's surveillance is in a way a departure from the ASEAN way of consensus.

At the same time, certain limitations are also observed. The CMIM is not a virtual fund as an accounting arrangement, nor a real fund with upfront contribution. Rather, it comprises a number of formal commitments held together by the execution of the CMIM Agreement and a commitment letter. It is not a legal entity, which enables it to be fully insulated from members' domestic foreign exchange policy. This is in contrast to peer RFAs such as the Arab Monetary Fund, European Stability Mechanism (ESM), and Latin American Reserve Fund (FLAR), which have been established with paid-in capital under a treaty and with the legal status of international organizations. The concern is that the CMIM's swap structure, still involving multiple transactions among members at the time of activation, is likely to generate a degree of uncertainty in crisis financing.

It has always been said that “the best time to repair the roof is when the sun is shining.” The ASEAN+3 authorities are recommended to revisit the original option for a financial modality for the CMIM — the SRPA model for more financing certainty. A prerequisite for this is to transform the CMIM Agreement into a type of treaty which will grant a legal entity to the CMIM. This may enable CMIM financing to be insulated to some extent from member authorities' domestic policy and thus increase financing certainty. In the long run, when political commitments are certified, it would be worth discussing the possibility of introducing a real fund with subscribed paid-in capital equipped with legal personality on a pilot basis.

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<sup>101</sup>Henning (2011).

## Total Size and Swap Quota

An increase in the CMIM's size to USD 240 billion was a huge step up from the the CMI and also from the initial CMIM in 2010, and it is the second largest RFA globally today. In 2012, the members decided to double the size without having to wait for the full staffing and capability enhancement by AMRO. This was because they fully realized the importance of having a large and substantial facility. However, on a mid- to long-term basis, the CMIM size may be revisited if such a necessity arises, considering risk factors and collaboration with BSAs and the IMF.

An alternative is that the CMIM allows each member's swap quota to be flexibly adjusted under a new ceiling, in particular for small economies, while maintaining the current total size and "tiered contribution" system. In exchange, robust measures could be employed to safeguard the resources contributed. The current system of the fixed swap quota seems to be based on the assumption that all members could request for assistance simultaneously, but this appears to be a very conservative view.

At the same time, the ASEAN+3 member economies may consider adopting a collaboration framework between the CMIM and BSAs, given the large number and amount of BSAs in the region, which amounts to about USD 373 billion as of late 2021. They had already agreed to maintain and enhance BSAs, if each party would consider BSAs necessary during the CMI multilateralisation process till 2010.

## Objectives and Lending Facilities

There is room for CMIM facilities to be further diversified to respond to the changing nature of crises and to meet various demands of countries at different stages of economic development. The CMIM mandate, in its sole operation, has been limited to address short-term liquidity problems. It has two facilities whose financing terms are prescribed at the agreement level: CMIM-SF for crisis resolution and CMIM-PL for crisis prevention, whose supporting period is 180 days, renewable up to three times.

Recognizing the relatively narrow scope of the CMIM facilities set by the existing mandate, the ASEAN+3 authorities are recommended to explore the possibility of introducing new instruments to help members better deal with macro-critical structural issues. A new financing instrument, free of any limits arising from the use of members' foreign reserves, may provide a

**Box 26.2:****CMIM Mandate**

The CMIM mandate is narrower than those of the IMF and other RFAs. While the IMF exercises wide discretion in determining whether there is a balance of payments need or not, which triggers IMF lending to a member country in trouble, another mandate is to provide concessional lending to low-income countries to reduce poverty and promote economic growth. Other RFAs' objectives are diverse, including economic development and regional integration, together with correcting balance of payments problems. By contrast, the CMIM focuses only on addressing urgent short-term liquidity and/or balance of payment difficulties in the region and to supplement IMF lending. Following multiple objectives, it was easier for the IMF and other RFAs to take diverse and proactive steps, including providing fiscal support, to address the impacts of the COVID-19 pandemic in 2020. The difference in objectives may partly explain why the CMIM has not been activated in response to the pandemic since 2020.

**Regional Financing Arrangements' Mandate and Responses to the Pandemic**

Institutions	Objectives	Responses to the COVID-19 Pandemic in 2020
<b>European Stability Mechanism (ESM) 2010</b>	Mobilize funding and provide stability support to members that are either experiencing or are threatened by severe financing problems in order to safeguard the financial stability of the euro area	[Pandemic Crisis Support] Support domestic financing of direct and indirect healthcare services, cure and prevention related due to the pandemic
<b>Latin American Reserve Fund (FLAR) 1978</b>	Correct disequilibria in balance of payments/improve investment conditions of foreign exchange reserves/policy coordination	Help member countries overcome balance of payments difficulties arising from the pandemic
<b>Eurasian Fund for Stabilization and Development (EFSD) 2009</b>	Help member states overcome the negative impact of global financial and economic crises/ensure members' long-term economic stability, and promote regional economic integration	Support the governments' measures to counter the impacts of of the pandemic
<b>Arab Monetary Fund 1976</b>	Short- and medium-term credit to overcome members' balance of payments problems/exchange rate stability/regional economic integration/regional financial markets development/regional monetary cooperation/payment system to promote intra-regional trade	Support governments in their response to the pandemic

Sources: Websites of each institution (ESM: <https://www.esm.europa.eu/>; FLAR: <https://flar.com>; EFSD: <https://efsd.eabr.org>; Arab Monetary Fund: <https://www.amf.org.ae/en>).

longer supporting period than that of the current CMIM. Since such a new financing instrument is likely to stand outside the existing CMIM mandate, attempts to introduce it would need to secure critical mass of political commitments of ASEAN+3 members.

### **IMF Linkage and Cooperation with the IMF**

Since the ASEAN+3's request for IMF quota reform in 2005, which came with the announcement of the CMIM project, the IMF has continuously reformed its governance structure, although modestly. It gave larger shares to China, Korea, Mexico, and Turkey in 2010, which were much underrepresented relative to the size of their economies. The IMF also gave more voting shares to “underrepresented” countries, including many in Asia. Meanwhile, the CMIM and IMF have developed an early information-sharing process and a conditionality framework for co-financing. This will determine how the CMIM and IMF will work together in providing co-financing and designing a program, and monitoring conditionality.

One practical question left to address with respect to the adopted cooperation framework is how the CMIM and IMF will resolve differences if both have divergent views on surveillance, program, and conditionality. Given their overlapping mandates, such as economic surveillance in particular, it is challenging to have some division of labor in which the two institutions would defer to one another in their respective areas of comparative advantage. Currently, both sides have agreed to apply the lead agency model. Here, the IMF takes the lead in program design and the CMIM/AMRO complements it to the degree that consistency is ensured, similar to that of the IMF–World Bank co-financing model. The lead agency model can be transitioned to a more advanced form — a coherent program design model — once CMIM/AMRO gains sufficient experiences in program design and implementation.<sup>102</sup> In this upgraded model, both sides may adopt certain guiding principles, rather than formulate rigid rules, that allow for a coherent program design. Meanwhile, the guiding principles must respect one another's independence and different lending practices to resolve differences, if any, as practiced by EU–IMF co-financing.

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<sup>102</sup>IMF (2017).

There is an alternative view that challenges the notion that the fragmented GFSN layers should be stitched together, particularly RFAs and the IMF.<sup>103</sup> In this view, the GFC in 2007–2008 induced inconsistent and ad hoc discontinuities in global financial governance and the incoherence can be productive rather than debilitating. A more complex and multipolar form of global financial governance may expand possibilities for policy and institutional experimentation, policy space for economic development, financial stability and resilience, and financial inclusion, according to this view.

### **Integration of CMIM and AMRO**

Under the current CMIM, if there is a request for CMIM liquidity support, AMRO, as its surveillance unit, is not only tasked to analyze the economic and financial situation of a swap recipient and provide its recommendation to the CMIM decision-making body but also to provide technical support for CMIM implementation. Concerns have been raised that the CMIM lacks a permanent secretariat in charge of all aspects of CMIM activation and rotating two coordinating countries would be less efficient in handling a contingency situation or retaining institutional memory. To stabilize the coordination function for CMIM activation and to fully utilize AMRO's organizational capacity, a new governance structure under which AMRO takes on a broader role in support of CMIM or serves as a CMIM secretariat could be considered. If the CMIM is transformed into a legal entity based on a treaty in the long run, AMRO can be integrated as a part of the newly created entity.

### **More Collaboration with Regional Initiatives**

A number of regional initiatives have emerged, along with the CMIM. Apart from the CMIM and AMRO, ADB serves as a secretariat for the ASEAN+3 Asian Bond Markets Initiative (ABMI); the Credit Guarantee and Investment Facility (CGIF) was established to provide credit guarantees for local currency denominated bonds issued by investment grade companies in ASEAN+3 countries; the Asian Bond Fund (ABF) is operating under the auspices of the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP); and the Asia Region Funds Passport (ARFP) in APEC has been established to support the development of an Asia region funds management industry through improved market access and regulatory harmonization

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<sup>103</sup>Grable (2018).

since 2013. As such, there are various ongoing initiatives and endeavors in East Asia and the Pacific. Closer cooperation with them may further enhance the effectiveness of each initiative's implementation and create synergy.

## Conclusion

RFAs have been actively operating in recent decades, particularly after the AFC and GFC. Among them are the CMIM and its surveillance arm, AMRO, which provide a financial safety net for the ASEAN+3 region.

Even though the IMF-supported programs during the AFC were a “blessing in disguise”<sup>104</sup> to some countries, in hindsight, many of the ASEAN+3 members became disenchanted with the IMF.<sup>105</sup> The IMF, many in East Asia believed at that time, did not represent their interest in a proper way, partly due to underrepresentation in its voting structure. Second, irrespective of its necessity and adequacy, the regional economies have harbored bitter memories of IMF-supported programs during the AFC, called the IMF stigma, which had a cookie-cutter approach without regard to region-specific considerations. Lastly, the most immediate issue was that the IMF did not have enough resources to rescue countries during the AFC. These considerations propelled the ASEAN+3 policymakers to establish their own regional liquidity arrangement, called the CMI, set up as a web of BSAs between member authorities in 2000.

The CMI was multilateralized into the CMIM in 2010. The CMI was only stand-by and unfunded, lacking in financing certainty and faced with procedural issues. Access to the CMI was also discouraged by the low level of the IMF de-linked portion. Not surprisingly, the CMI was never tapped during the GFC. Learning from those lessons, individual BSAs of the CMI were consolidated into a single arrangement in 2010. Since then, in accordance with the two CMIM mandates, the ASEAN+3 members have continued to enhance the CMIM — particularly by doubling the CMIM size to USD 240 billion from USD 120 billion, and increasing the IMF de-linked portion to 40%, broadly in line with the progress made in terms of economic surveillance and the adoption of the CMIM conditionality framework, and allowing the use of local currencies for CMIM liquidity support, together with USD. They also addressed the GFSN agenda by adopting a set of

<sup>104</sup>The Wall Street Journal (1998).

<sup>105</sup>Suk and Paradise (2020).

collaboration mechanisms with the IMF. In doing so, members sought to maintain a good balance between the concern over moral hazard and the need for a strong regional self-help mechanism.

Despite these achievements, there are remaining challenges, and room for further enhancement of the CMIM. First, the financing modality of the CMIM is still in a lighter form. As it is not an independent real fund, nor a legal entity, there is room for further enhancement in terms of financing arrangement and legal structure.

Second, given the increasing magnitude of capital flows in the region, discussions on accessibility may be important, and in the mid to long term, the size of the CMIM may be revisited. For this, it would be worth considering to introduce flexible multiples of swap quota for small economies and adopting a collaborative mechanism with BSAs in the region.

Lastly, the CMIM and the IMF may revisit the modality of collaboration on a long-term basis. Besides, it is recommended for AMRO to take on a broader role in support of CMIM and be positioned to serve as the CMIM secretariat. Closer cooperation with other regional initiatives may further enhance the effectiveness of each initiative's implementation by creating synergy.

There is no substitute for a strong financial safety net to help avert financial stress arising from large and volatile capital flows. As global financial networks have become more complex and integrated, cross-border capital flows have increased substantially, relative to world GDP. Given growing interconnectedness in trade and financial activity across economies, sudden stops and reversals of capital flows are real risks, and with contagion effects. It is no surprise, therefore, that global policymakers have focused on creating a stronger GFSN. This will also help reduce a reserve accumulation spree and lower sovereign risk premia, which in turn will help reallocate capital to where it might be most productive. Therefore, the goal to have a stronger liquidity support mechanism in the region is not only desirable, but it is also urgent. It is imperative therefore for the ASEAN+3 members to advance the CMIM further, to make it a more active, more centralized, and more collaborative liquidity mechanism.

## **Annex: Progress on the CMIM and Further Developments**

The first AFMM+3 was held on the occasion of the ADB annual meeting in May 1999 on an annual basis. This meeting process has been expanded to



Date	Main Developments of the CMIM
May 2005	<ul style="list-style-type: none"> <li>• ASEAN+3 members embarked on a CMIM process</li> </ul>
May 2007	<ul style="list-style-type: none"> <li>• Agreement on a form of financial arrangement and legal modality</li> <li>• Reiterated commitment to maintain the two core objectives of the CMI</li> </ul>
May 2008	<ul style="list-style-type: none"> <li>• Agreement on the proportion of contribution coming from ASEAN countries and the Plus Three countries to be 20:80</li> </ul>
May 2009	<ul style="list-style-type: none"> <li>• Agreement on all the main components of the CMIM, with its total size set at USD 120 billion, and its implementation</li> <li>• Agreement to establish an independent surveillance unit</li> </ul>
March 2010	<ul style="list-style-type: none"> <li>• On December 24, 2009, six ASEAN countries, the Plus Three countries (China, Japan, Korea) and Hong Kong signed the original CMIM Agreement, which entered into force on March 24, 2010</li> </ul>
May 2010	<ul style="list-style-type: none"> <li>• Agreed to establish AMRO as a company, the surveillance unit of CMIM</li> </ul>
May 2011	<ul style="list-style-type: none"> <li>• Endorsed the Operational Guidelines for CMIM (OG)</li> </ul>
May 2012	<ul style="list-style-type: none"> <li>• Participation of central bank governors in the ASEAN+3 process</li> <li>• Agreement to strengthen the CMIM through doubling the total size to USD 240 billion, increasing the IDLP to 30%, and introducing a crisis prevention facility (CMIM-PL (first amendment))</li> </ul>
May 2013	<ul style="list-style-type: none"> <li>• Finalization of the first amendment of the CMIM Agreement, and agreement to transform AMRO to an international organization</li> <li>• The first CMIM test run was conducted in 2013</li> </ul>
May 2014	<ul style="list-style-type: none"> <li>• The first amendment of CMIM entered into force on July 17, 2014</li> <li>• Completion of the revised Operational Guidelines</li> <li>• Endorsed the Guidelines for the further cooperation with the IMF</li> </ul>
May 2015	<ul style="list-style-type: none"> <li>• Developed the ERPD Matrix — ex ante qualification criteria for CMIM-PL</li> <li>• Continued the test run, OG revision, and CMIM peace-time preparation</li> </ul>
May 2016	<ul style="list-style-type: none"> <li>• Established AMRO as an international organization on February 9, 2016</li> <li>• Studied how CMIM can be better integrated into global financial safety net</li> <li>• A joint test run with the IMF kick-started (2016–2018)</li> <li>• Discussed the increase of the IDLP</li> </ul>
May 2017	<ul style="list-style-type: none"> <li>• Clarified the activation process of IDLP</li> <li>• Endorsed the plan on the first periodic review of the CMIM Agreement</li> </ul>
May 2018	<ul style="list-style-type: none"> <li>• Agreed on the main contents of the first CMIM periodic review, enhancing consistency with the IMF-supported program and creating an explicit legal basis for CMIM conditionality</li> </ul>
May 2019	<ul style="list-style-type: none"> <li>• Adopted the Guiding Principles of the CMIM conditionality framework</li> <li>• Adopted the ERPD Matrix Scorecard as a qualification reference</li> <li>• Adopted an information sharing mechanism with the IMF</li> <li>• Acknowledged the progress of review of the future direction of the CMIM</li> <li>• Endorsed the General Guidance on local currency contribution to the CMIM</li> </ul>
May 2020	<ul style="list-style-type: none"> <li>• The amended CMIM Agreement entered into force on June 23, 2020</li> <li>• Completed the CMIM Conditionality Framework (Technical Guidance for IDLP and ILP)</li> <li>• Conducted test runs for funds transfer (2019–2020)</li> </ul>
May 2021	<ul style="list-style-type: none"> <li>• The amended CMIM Agreement entered into force on March 31, 2021, including (i) increased IDLP from 30% to 40% and (ii) institutionalized local currency contributions for the CMIM crisis financing</li> <li>• Discussed a new CMIM reference interest rate to replace LIBOR and reviewed the interest margin, preparing the OG for the use of local currency for CMIM</li> <li>• Discuss how to further develop the CMIM in the future</li> </ul>

AMRO = ASEAN+3 Macroeconomic Research Office, ASEAN = Association of Southeast Asian Nations, CMI = Chiang Mai Initiative, CMIM = Chiang Mai Initiative Multilateralisation, CMIM-PL = Chiang Mai Initiative Multilateralisation Precautionary Line, ERPD = Economic Review and Policy Dialogue, IDLP = International Monetary Fund de-linked portion, ILP = International Monetary Fund linked portion, IMF = International Monetary Fund, LIBOR = London Interbank Offered Rate.  
Source: Joint Statement of ASEAN+3 Finance Ministers (and Central Bank Governors) Meetings, various years.

the ASEAN+3 Finance Ministers and Central Bank Governors (AFMGM+3) since 2012, acting as the governing forum for all CMIM developments.

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