SOURCES AND EVOLUTION OF THE CHIANG MAI INITIATIVE

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Like the current global crisis, the Asian financial and economic crisis of 1997 and 1998 was not just a cyclic event. As a general rule, events of this kind end up in a search for mechanisms that forestall or cushion a future crisis somehow. At the turn of the centuries waves of trouble tend to rise, in the first place, in financial sphere. Hence, it is natural to see attempts to mend it in a new way at both global and regional levels. In East Asia, the Chiang Mai Initiative (CMI) is a striking example of regional financial cooperation.

The CMI was actually preceded in 1997 by a *plan put forward by Kiichi Miyazawa*, Japan's Finance Minister at the time. At the height of the crisis that had overrun East Asian countries, that prominent politician came out with an idea of establishing an Asian Monetary Fund (AMF), a regional replica of the International Monetary Fund. As we look into the reasons for Miyazawa's idea, we will remember that Japanese banks, more than any others, had been on a course of vast expansion into the region in the pre-crisis period and that many loans they had made went delinquent because of the borrowers' insolvency.

The idea ran into opposition from Washington that saw it as an attempt to rob the IMF of some of its prerogatives. China, too, declined to support it.

A Manila Framework Group, brought into life under the tutelage of the IMF assisted by the World Bank and the Asian Development Bank, was set up in November 1997 to monitor the economic and monetary situation in the region.[1]

Japan made another move less than a year later, in October 1998. And Miyazawa again announced Japan's readiness to give $30 billion to its East Asian neighbors. Half of that amount was to go into medium- and long-term economic measures, and the other half was to pay for short-term crisis control measures.[2] Things did not go, however, as far as the announcement promised – by late February 2000, South Korea, Thailand, Indonesia, Malaysia, and the Philippines had been given a little over $5 billion to divide up among themselves. About that time Japan's Finance Ministry announced that it had made its contribution to the recovery of East Asian economies and that they needed urgent aid no more.[3]

One way or another, the Asian crisis showed that countries having their finances in disarray did not receive effective help from multilateral institutions, whether the IMF itself or the Asia-Pacific Economic Cooperation (APEC) forum, widely representative but lacking real powers. The IMF's stand left the dreariest impression. Writing out carbon copies of prescriptions meant to heal the national economies without regard for local specifics, the Fund permitted the crisis to tighten its grip rather than ease it in many countries. When Malaysia went against the IMF recommendations, it only reaped the rewards for its defiance.

All this plus China's economic rise not stopped by the crisis combined to encourage formation of the ASEAN+3 group (the three being China, Japan, and South Korea). The group has held annual summits since December 1997 and, beginning in April 1999, meetings of its members' finance ministers coming together to adopt common approaches to regional cooperation. Significantly, the emergence of the CMI and its gradual implementation and diversification are related directly to the birth of the ASEAN+3 format.

In December 1999, the group's third summit resolved to fortify "self-help and support mechanisms in East Asia."[4] In May 2000, the ASEAN+3 finance ministers who came for their second meeting to Chiang Mai in Thailand made public a plan for a series of bilateral swap agreements to be put into effect. The idea of each agreement is that the central banks of any two countries agree on a possible swap of national for foreign currency. This kind of operations is designed to hold the exchange rate of a national currency steady or deal with short-term liquidity problems in settlements between the region's countries. The currencies are swapped back upon expiry of the agreement term.

This decision (that, in fact, set off activity within the CMI framework) was the first step toward creation of a mutual monetary support system for East Asian countries. This system was designed to rid the signatories of the need to turn for urgent aid to the IMF without, however, the agreements stated expressly, abandoning cooperation with the Fund altogether.

Bilateral currency swaps within the CMI framework were portrayed as a cure for wide exchange rate wobbles and stock exchange panic of the kind that spread in 1997 and 1998. Some experts were inclined to view the CMI as an imitation of the early steps made by the EEC through a "currency snake" between 1972 and 1979. For others, it was more of a political declaration than an economic plan in good faith.[5] Doubts were voiced that the agreements reached could ever be fulfilled. It was also gossiped that the idea that swap agreements or an institution of the AMF could have prevented the Asian crisis was ill-conceived and politically noxious.[6]

What did the IMF do in response? In 2001, Horst Köhler, the Fund's managing director at the time, said on many occasions that swap agreements could promote regional economic cooperation and that he was not opposed to an Asian currency union. Regionalization, however, was not to bring East Asia into confrontation with the IMF, pointed he. Rather, East Asia was to supplement the Fund as a global institution.[7]

Whatever the case, coordination and cooperation developing within the CMI framework made the Manila Group, an IMF creature, redundant. In 2004, it wound up its operations, and the ASEAN+3 finance ministers switched their attention to efforts to expand the scale and improve the efficiency of CMI activities. They agreed at their eighth meeting in May 2005 to have the group's economic monitoring procedures added to the CMI framework. Their other decisions related to rules for activating swap agreements and joint decision-making on the manner in which they were to be used, and also on a significant increase in the value of the agreements.[8] They also resolved that the swap share that could be used beyond the framework of a program of support a country was to receive from the IMF be doubled from 10% to 20%.[9]

It is left to the reader to appreciate how fast the value of swap agreements grew in the years that followed. Their total amount rose from $36.5 billion in late 2004 to $64 billion by early 2007 after China, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, and Thailand had entered into 16 bilateral agreements. By October 2009, the figure was close to $90 billion.[10]

Against this background, the idea of shifting from a set of bilateral swap agreements to a multilateral currency pool had been discussed since 2006, and the discussions were moving closer to the point from year to year.[11] Consensus on this issue was reached days before the end of last year, and the relevant agreement went into force on March 24, 2010. The substance of the new stage in the development of monetary cooperation within the ASEAN+3 format shows up in the new name of the "joint venture" – the *Chiang Mai Initiative Multilateralization*, or CMIM. Previously, bilateral swap agreements involved eight out of 13 countries covered by the ASEAN+3 format, while now they were joined by recent ASEAN members – Brunei, Vietnam, Cambodia, Laos, and Myanmar. True enough, the new members make no more than token contributions.

The pool of $120 billion is built around the impressive contributions made by Japan and China ($38.4 billion each).[12] The South Korean contribution is half as much as either country's, $19.2 billion – still a large figure.[13] Indonesia, Malaysia, Singapore, Thailand, and the Philippines, the ASEAN founding countries, provide $4.77 billion each.

CMIM: Signatories' Contributions and Access to Pool Resources

Countries		Financial contribution			Multiplier
		Billions of U.S. dollars	%		
China	38.4	less Hong Kong – 34.2	32.0	28.5	0.5
		Hong Kong – 4.2		3.5	2.5
Japan		38.4	32.0	0.5	
Korea		19.2	16.0	1.0	
Three countries		96.0	80.0	–	
Indonesia		4.77	3.97	2.5	
Thailand		4.77	3.97	2.5	
Malaysia		4.77	3.97	2.5	
Singapore		4.77	3.97	2.5	
The Philippines		3.68	3.07	2.5	
Vietnam		1.0	0.83	5	
Cambodia		0.12	0.1	5	
Myanmar		0.06	0.05	5	
Brunei		0.03	0.02	5	
Laos		0.03	0.02	5	
ASEAN		**24.0**	**20.0**	–	
Total		120.0	100.0		

SOURCE: www.mas.gov.sg/news_room/press_releases/2010/Joint_Press_Release_CMIM_Comes_Into_Effect.html

Any pool member may, in need, expect to receive an amount equal to its own contribution multiplied by an individual multiplier. To give an example, each of the first five ASEAN members can claim approximately $11 billion under this formula.[14]

According to Naoyuki Shinohara, IMF Deputy Managing Director, giving a multilateral dimension to the Chiang Mai Initiative elevates its significance for the region and is a positive development. He believes that the IMF has to offer more vigorous support to similar regional agreements.[15]

No doubt, the CMIM's built-in potentialities and their materialization are two different things. Much will depend on understanding between China and Japan and relations between these two countries as prospective key lenders and their prospective borrowers among ASEAN member countries, and possibly with South Korea. Some experts lean to the view that aid from the pool may prove inadequate, and that concord between Japan and China is easier to achieve in the shadow of a crisis (for example, the ongoing crisis) than in the absence of one.[16]

Where does the truth lie? Perhaps, economic cooperation within the China, Japan, and South Korea triangle that develops in step with progress of the CMIM furthers the organization's chances of success?

What is more, the 1997-1998 crisis showed that much aid is not always required for short-term currency interventions, particularly for turning back the speculators' first attack. What is often more important is the speed and the right time (that have an impact on the market players' psychology) to draw on aid. If the right time is missed, much money may be much too little. We have to admit, though, that to the extent that aid given within the CMIM framework is related to IMF procedures, they may slow it down.

Even though a majority of East Asian economies gives no reasons for major worries, critics say that the economic situation in these countries is not properly monitored. Neither is there clarity about the CMIM secretariat to be formed and its location. A secretariat was not needed at the time when the Chiang Mai Initiative was based on bilateral swaps. When it evolved into a multilateral agreement that requires collective decisions for financial aid to be given, it calls for a bureaucratic body such as a secretariat, for example.

No matter how things turn out, the CMIM can obviously offer much to the region. This is, in particular, the view held by Joel Rathus, an expert keeping an eye on its development. Although, he says, the course the CMIM will follow in its development "is not set in stone" as yet, its short-term trajectory is clear enough – moving toward institutionalization of relations between the partners.[17]

To conclude, the East Asian countries, including all the ten ASEAN members, are consistent in joining their efforts to protect the region against monetary troubles originating outside it. Reducing financial dependence on global institutions and leaders (the IMF and the U.S.) is a strong motivation for the CMIM to be brought to life. It is not that monetary cooperation with them will be terminated or their aid rejected offhand. In every sense, the CMIM is a regional initiative built into the global context. In a longer run, it may become a step on the way toward an Asian Monetary Union. Its near-term goal, though, is making the multilateral financial mechanism established officially in 2010 fully operational. ■

NOTES:

1. The Manila Group comprised Brunei, Indonesia, Malaysia, Singapore, Thailand, and the Philippines, joined by China (and Hong Kong), Japan, South Korea, Australia, Canada, New Zealand, and the United States. This was, in fact, the roll of countries of the Asia-Pacific Economic Cooperation (APEC) forum when it was formed in 1989. http://www.mof.go.jp/english/if/e1e071.htm.
2. *See:* www.mof.go.jp/english/if/e1e042.htm.
3. *See:* findarticles.com/p/articles/mi_m0WDP/is_2000_March_6/ai_59998149/.
4. *See:* www.mof.go.jp/english/if/regional_financial_cooperation.htm.
5. *See*, for example: *The Financial Times,* September 22, 2000; *The International Herald Tribune*, May 11, 2001.
6. *See*: "Silly Scheming in Chiang Mai," Asia Times Online, May 9, 2000. www.atimes.com/editor/BE09Ba01.html.
7. *See*: *The Far Eastern Economic Review*, June 14, 2001, pp. 48-50.
8. See: Joint Ministerial Statement of the Eighth ASEAN+3 Finance Ministers' Meeting. www.mof.go.jp/english/if/regional_financial_cooperation.htm.
9. *See*: revistas.ucm.es/cps/16962206/articulos/UNIS0606230049A.PDF.
10. *See*: revistas.ucm.es/cps/16962206/articulos/UNIS0606230049A.PDF; www.mof.go.jp/english/if/regional_financial_cooperation.htm; www.boj.or.jp/en/type/release/adhoc09/data/un0910a.pdf.
11. *See*: www.mof.go.jp/english/if/regional_financial_cooperation.htm.
12. Hong Kong, which has a measure of monetary independence but is not entitled, for political reasons, to make its own contribution separately from China, was added to the agreement roster. Hong Kong's share of China's total contribution is $4.2 billion.
13. *See*: "ASEAN, China, Japan, SKorea Finalise Crisis Pact," Agence France-Presse, May 3, 2009; Joel Rathus, "The Chiang Mai Initiative: China, Japan and Financial Regionalism," May 11, 2009. www.eastasiaforum.org/.

14. *See*: Joel Rathus, "The Chiang Mai Initiative's Multilateralisation: A Good Start," March 23, 2010. www.eastasiaforum.org/.
15. *See*: "Leading the Global Economy: The Outlook and Policy Challenges Facing Asia," Naoyuki Shinohara, Deputy Managing Director, IMF. Public Lecture hosted jointly by the Lee Kuan Yew School of Public Policy and Monetary Authority of Singapore, Singapore, June 9, 2010. www.imf.org/external/np/speeches/2010/060910.htm.
16. *See*, for example: Joel Rathus, "The Chiang Mai Initiative's Multilateralisation."
17. *Ibid*.; Joel Rathus, "The Chiang Mai Initiative: China, Japan and Financial Regionalism," May 11, 2009.