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A Graduate School of Nanyang Technological University

# RSIS COMMENTARIES

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## Asian Monetary Fund: Getting Nearer

By Pradumna B. Rana

### **Synopsis**

*The establishment of the ASEAN+3 Macroeconomic Research Office (AMRO) recently and the Chiang Mai Initiative Multilateralisation (CMIM) last year has shortened the road towards the Asian Monetary Fund (AMF). But still, don't expect the AMF for at least another five years.*

### **Commentary**

ON 4 MAY 2011 in Hanoi, ASEAN and its three Northeast Asian partners China, Japan and South Korea took an important step towards establishing the Asian Monetary Fund (AMF). The ASEAN+3 finance ministers met with Benhua Wei, the newly appointed Director of the ASEAN+3 Macroeconomic Research Office (AMRO) which will be located in Singapore. They also instructed their deputies to review AMRO's organisational capacity and expressed the hope that it would be operational soon. The AMRO is a critical step towards the AMF.

### **Chiang Mai Initiative Multilateralisation (CMIM)**

The other critical step in establishing the AMF was the Chiang Mai initiative (CMI) and its successor, the CMIM, which came into effect in March 2010. In the aftermath of the Asian financial crisis of 1997-1998, as part of their regional self-help mechanism, the ASEAN+3 countries had launched the CMI comprising a network of bilateral swaps among each other. These swaps were multilateralised – that is, they could be withdrawn simultaneously with one agreement. This formed the CMIM comprising the \$120 billion crisis fund.

China (together with Hong Kong) and Japan each agreed to contribute 32% of the amount, Korea another 16%, and the ASEAN countries the remaining 20%. Within ASEAN, Indonesia, Malaysia, Thailand, and Singapore agreed to contribute \$4.77 billion each, while the Philippines provided \$2.64 billion. In times of crisis, these five ASEAN members can withdraw 2.5 times their contribution.

However, during the global economic crisis of 2008-2009 when a number of countries in the region faced a liquidity shortage, the CMI swaps could not be used. This was because of the absence of a surveillance unit to conduct due diligence. Understandably, countries in the region were not willing to lend to each other under the CMI and CMIM without it.

So Korea and Singapore had to rely on national reserves or trigger their swap agreements with non-regional and regional countries outside of the CMI. Korea triggered its swap agreement with US and China, and Singapore with the US and Japan. A fully operational AMRO will fill this important void.

In Hanoi, the ministers welcomed the establishment of AMRO, which, as a surveillance unit of CMIM, will play an important part in monitoring and analysing regional economies. It will contribute to early detection of risks, swift implementation of remedial actions, and effective decision-making of CMIM. The ministers also instructed their deputies to launch a study to strengthen the legal status of the AMRO to constitute an international organisation with an international legal personality.

### **Asian Monetary Fund**

As is well-known, the original proposal to establish the AMF was made at the height of the Asian financial crisis in 1997/1998. It was quickly shot down by the IMF and the US Treasury. But the difficulty in reforming the governance of the IMF -- its charter, quotas, and voting rights -- to give greater weight to large emerging markets such as China and India, has led to the evolution of a more flexible decentralised global monetary architecture. Under the decentralised architecture, the IMF as the "senior" global organisation would be linked to monetary funds in various regions of the world in a complementary manner. The Arab Monetary Fund, and the Latin American Reserve Fund have already been established, and the probability of a European Monetary Fund is high. The case for the AMF has, therefore, been strengthened.

In Pittsburgh, the G20 had pledged to increase the quota of large emerging markets by 5% and this was increased to 6% in Seoul. However, even the more modest pledge made five years ago when the IMF annual meeting was held in Singapore in 2006, has yet to be implemented; the required support of 85% of IMF membership has yet to be obtained.

### **NTU Survey**

A survey was done recently of ASEAN+3 opinion leaders (comprising government officials, academics, and bankers). It was conducted by a team of researchers from NTU (led by the author) for the ASEAN+3 Research Group. The findings are illustrative. Nearly two-thirds of the opinion leaders felt strongly that the decision to establish the AMRO was significant and that it would enhance the usage of CMIM. A similar number of leaders felt that some time in the future, the CMIM and the AMRO should be merged to establish the AMF. The opinion leaders, however, felt that the AMF should complement the IMF rather than supplant it.

But, one should not expect the AMF any time soon. Although established, the AMRO is not operational yet, and its legal status has also yet to be determined. Even beyond that, the task of establishing an effective independent surveillance unit with a fully operational early warning system of crises and competencies to complement the IMF will surely take time.

In the NTU survey, roughly one-half of ASEAN+3 opinion leaders felt that the AMF could be established sometime between 2016 and 2020, and another one-third felt that that this could happen only after 2020. Only one out of ten opinion leaders felt that it could be established within the next five years.

Asia has not forgotten the AMF. In fact, the case for the AMF has been much strengthened by the difficulty in reforming the governance of the IMF. The establishment of the AMRO now and the CMIM last year has quickened the journey towards the AMF. But it will still take time.

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