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Monetary Integration in ASEAN+3: The Next Steps

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Synopsis

The ASEAN+3 has taken a number of significant steps recently to further deepen monetary integration. The next steps should be to introduce a regional weighted currency basket and expand membership.

Commentary

ON 3 May 2012, on the sidelines of the Asian Development Bank's Annual Meeting in Manila, the ASEAN+3 took a number of significant steps to further deepen monetary integration in the region. In the midst of a flurry of other activities and announcements - including the sharp increase in ADB lending last year and the launching of the ASEAN Infrastructure Fund - these important steps went relatively unnoticed.

The most significant outcome of the Manila meeting was the upgrading of the ASEAN +3 Finance Ministers Meeting (AFMM+3) to the ASEAN+3 Finance Ministers and Central Bank Governors' Meeting (AFMGM+3); the central banker governors of the 13 member countries (plus Hong Kong) have been invited to join. In the past, the region's firewall for crisis prevention and crisis resolution had been run solely by finance officials responsible for tax and expenditure policies. Officials responsible for monetary and exchange rate policies were left out. This major gap has now finally been filled.

Expansion of the CMIM

The size of the US\$120 billion crisis fund or the Chiang Mai Initiative Multilateralisation (CMIM) was doubled – although it still continues to be only a small fraction of the bailout fund in Europe. The amount that can be borrowed without an IMF programme in place was increased to 30% and is targeted to reach 40% in 2014. The AFMGM+3 also established a CMIM Precautionary Line which will permit countries with strong economic fundamentals to borrow large amounts of liquidity for crisis prevention.

While the details of the credit line are yet to be worked out, those responsible should note that a similar facility at the IMF has been used by only three countries. Can the ASEAN+3 succeed where the IMF has failed?

The Ministers and Governors also commended the ASEAN+3 Macroeconomic Research Office (AMRO) for its success in staff recruitment and its regional surveillance activities and requested their deputies to find out how AMRO's organisational capacity could be further strengthened. They also welcomed Singapore's commitment to provide necessary host country support to the AMRO.

Despite its commendable performance under the director Benhua Wei, AMRO faces a number of challenges. Aside from those mentioned above, two others need highlighting. Firstly, AMRO must find out why at the height of the global economic crisis countries like South Korea chose to borrow from the US Federal Reserve instead of the CMIM, the region's own crisis fund. Remedial measures should be put in place quickly lest capital once again flows out of the region in response to the rapidly deteriorating situation in the eurozone with a Greek exit or "Grexit" no longer fanciful.

Secondly, modalities must be found so that AMRO can work jointly and smoothly with the IMF. Regional financial safety nets should complement the global financial net and not undermine it. Europe's experience where the IMF is working closely with the European Union and the European Central Bank as a member of the troika -- could be useful.

AMRO is now just over a year old and its plate is full. It should not be over-burdened. But two next steps, which require relatively less resources, should be considered. The first is that AMRO should start introducing the Regional Monetary Unit (RMU), a regional weighted currency basket. The RMU would provide more stable currency values. It could also facilitate AMRO's surveillance activities.

It could do so by making sure that countries are avoiding competitive devaluations among each other and are converging their macroeconomic policies for deeper integration. Eventually the RMU could be an alternative international reserve asset to the ailing US dollar, but this is only a longer term possibility at the present time.

NTU Survey

A survey was done of the ASEAN+3 opinion leaders (comprising government officials, academic, and bankers). It was conducted by a team of NTU researchers (led by the author) for the ASEAN Secretariat. Over two-thirds of the opinion leaders felt that the AMRO should be tasked with calculating the RMU, using the CMIM weights, and publicising it on a daily basis. A similar number felt that the AMRO should use the RMU for regional surveillance, its key activity. A large number also felt that the AMRO budget and the operations of the AMRO and CMIM should be denominated in the RMU like the Special Drawing Rights (SDRs) in the IMF.

Membership of ASEAN+3

The second next step is that the membership of the ASEAN+3 including AMRO and CMIM should be expanded because, among others, this would increase the size of the region's crisis fund. Two years ago, the former Thai Minister of Finance Chalongphob Sussangkarn and presently the chair of the AMRO Advisory Panel had proposed that India, Australia, and New Zealand be made associate members and contributing partners -- short of full membership -- of the CMIM.

I have also argued elsewhere that expanded membership of the ASEAN+3 could strengthen Asia's voice at the G20 high-table. Joint policy coordination meetings of the expanded ASEAN+3 would provide a robust regional agenda for the ASEAN chair to table at the G20 Summits. With the next AFMGM+3 meeting slated for New Delhi in May 2013, this is an opportune moment to expand membership not to be missed.

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