Toward an Asian Monetary Fund: Ideas for Transition

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Abstract
Creation of an Asian Monetary Fund might be a way to improve the financial safety net in Asia. This paper presents ideas for reforming the Chiang Mai Initiative Multilateralization (CMIM)—and its sister organization the ASEAN+3 Macroeconomic Research Office (AMRO)—to move Asia in that direction. Among the ideas presented are making the CMIM an international treaty-type organization with paid-in capital, improving indigenous surveillance and monitoring capacity and developing a conditionality framework, merging the CMIM and the AMRO, and creating new functions for a regional stability mechanism such as macroeconomic stabilization. Much of the analysis focuses on Europe, which may have lessons to teach on matters such as transparency and accountability, the dangers of an improperly designed monetary union, the role of the IMF in the global financial safety net, the importance of regional leadership, and the necessity of taking into account local conditions in designing new institutions or initiatives.

1. Introduction

Regional financial institutions have been proliferating in recent decades. Be it Europe, North America, Asia, Africa, Latin America, or the Middle East, a slew of institutions have been established to deal with financial governance issues in their respective region. Among them are the Chiang Mai Initiative Multilateralization (CMIM) and the ASEAN+3 Macroeconomic Research Office (AMRO), the former of which exists to deal with short-term balance of payment and liquidity problems through currency swap agreements among the member states of ASEAN and China (including Hong Kong), Japan, and South Korea in

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a single contractual arrangement, and the latter of which provides research and surveillance functions. One of the central issues that finance experts are focusing on now is how these institutions might evolve in the years ahead. Might the CMIM evolve into an Asian Monetary Fund (AMF)? Might it become an "Asian IMF"?[1] Does it already represent the rebirth of the AMF idea put forth by Japan in 1997, which never came to fruition because of opposition from the U.S. Treasury, the IMF, and a lack of support from China?[2]

This paper will address these questions. We are particularly interested in how the CMIM might be reformed to make it more effective as one part of the Asian financial safety net, which also includes foreign exchange reserves, bilateral swap agreements, and IMF lending facilities. Reforming the organization—which could include merging it with the AMRO, moving to a system of paid-in capital, increasing the rapidity of its decision making, and expanding its membership—could move it in the direction of a full-fledged AMF.

The plan for this paper is as follows: first, we will look at why an AMF or something along those lines is needed, giving attention to shortcomings of the IMF, which still suffers from stigma because of its harsh and widely regarded as inappropriate conditionality requirements during the Asian financial crisis of 1997–98 but which also reminds policymakers that some kind of lending conditionality will likely be needed in a financial crisis. Then, we will consider some of the issues policymakers will have to grapple with in reforming the CMIM or moving to create a more ambitious AMF. This will be followed by an examination of developments in Europe, which may provide, in some instances, lessons for Asia. The final section concludes.

2. Need for an AMF

Interest in an Asian Monetary Fund has been expressed by many over the years (Chowdhury 1999; Park 2009; Rana 2011; Kawai 2015). Much of the discussion in ASEAN+3 and AMRO has focused on how the CMIM might evolve, with attention given to matters such as funding structure, conditionality framework, governance and surveillance, and larger issues of financial integration pertaining to a common currency, region-wide banking and securities markets regulation, and new technologies. One scholar has advanced a number of suggestions, including an elimination of the CMIM–IMF link, increasing the size of the CMIM, and making the AMRO "an independent international organization to function as a secretariat for all aspects of CMIM with adequate resources" (Kawai 2015, 27), which, if implemented would create, in his view, a de facto AMF.

1 These questions were asked about the institution CMIM grew out of—the Chiang Mai Initiative (CMI)—which was a network of bilateral currency swap arrangements among a number of Asian countries. See Henning (2009) and West (2017).

2 On this topic, see Grimes (2011).

Table 1. Comparison of major Western country and Asian country IMF member quotas and voting power as of 4 March 2020

	Quota		Votes	
Member	**Millions of SDRs**	**Percent of total**	**Number**	**Percent of total**
United States	82,994.2	17.45	831,407	16.52
Germany	26,634.4	5.60	267,809	5.32
France	20,155.1	4.24	203,016	4.03
United Kingdom	20,155.1	4.24	203,016	4.03
Italy	15,070.0	3.17	152,165	3.02
Canada	11,023.9	2.32	111,704	2.22
Netherlands	8,736.5	1.84	88,830	1.75
Belgium	6,410.7	1.35	65,572	1.30
Sweden	4,430.0	0.93	45,765	0.91
Major western countries	201,381	42.3	2,028,460	40.3
Indonesia	4,648.4	0.98	47,949	0.95
Singapore	3,891.9	0.82	40,384	0.80
Malaysia	3,633.8	0.76	37,803	0.75
Thailand	3,211.9	0.68	33,584	0.67
Philippines	2,042.9	0.43	21,894	0.44
Vietnam	1,153.1	0.24	12,996	0.26
Myanmar	516.8	0.11	6,633	0.13
Brunei	301.3	0.06	4,478	0.09
Cambodia	175.0	0.04	3,215	0.06
Lao PDR	105.8	0.02	2,523	0.05
ASEAN Total	19,680.9	4.14	211,459	4.2
Japan	30,820.5	6.48	309,670	6.15
China	30,482.9	6.41	306,294	6.09
Korea	8,582.7	1.80	87,292	1.73
"Plus 3" Total	69,886	14.7	703,256	13.9
ASEAN + "Plus 3" Total	89,566.9	18.8	705,779	18.1
IMF Total	475,472.9	100.0	5,031,614	100.0

***Source**: International Monetary Fund (www.imf.org/external/np/sec/memdir/members.aspx).*

***Note**: The original members of the G10 are used as a proxy for the West except for Japan, which is excluded and listed in the "Plus 3" group. The G10 was created in 1962 to provide additional funds to the IMF under the General Arrangements to Borrow. SDR: special drawing right.*

Underlying many of the analyses is disenchantment with the IMF, which many in Asia do not think best represents its interests, in part because of an unfair voting structure in the Washington, DC–headquartered organization. As Table 1 shows, the aggregate voting share of the nine original Western members of the G10, a group of wealthy countries that provided additional funds to the IMF under its General Arrangements to Borrow, of which Japan was also an original member, amounted to 40.3 percent as of 4 March 2020, compared with only 18.1 percent for the 10 members of ASEAN and China, Japan, and South Korea—the "Plus 3" countries.[3] What some feel is unfair, even after the IMF's 14th General Review of Quotas in 2010 gave more voting power to emerging markets and developing countries, is that the voting shares are not reflective of relative economic power, which seems anomalous under the IMF's quota formula designed to help gauge it.[4] For example,

3 The members of ASEAN and the "Plus 3" countries make up CMIM, which also includes Hong Kong.

4 Ways to explain this are that the formula, which gives 50 percent weight to GDP, 30 percent to economic openness, 15 percent to economic variability, and 5 percent to official reserves, is "seen as guidance more than a rule, as the Board of Governors has full discretion in deciding on the actual quota shares" (European Parliament 2019a), and that some of the factors such as

according to one analysis of 2016, China had a voting share after the reforms of a little more than 6 percent, whereas its share of the world economy on a purchasing power parity basis was 18.59 percent (Weisbrot and Johnston 2016).

Of further concern is that a single country—the United States—can veto changes in IMF quotas or other important governance matters that require an 85 percent majority, as can EU countries, which are said to "coordinate their views informally" (European Parliament 2019a, 2). Were ASEAN members and the "Plus 3" countries to coordinate their votes, they too could veto decisions, though there is not a history of such coordination and it should be noted that votes do not always line up on geographical lines. The situation will remain unchanged for at least a while after the IMF decided in October 2019 to delay an increase in quotas, which reportedly was opposed by the United States but supported by China and India (Bretton Woods Project 2019). As the IMF put it, "We note the lack of progress on a quota increase under the 15th Review and call on the Executive Board to complete its work on the 15th Review and on a package of IMF resources and governance reforms, and to report to the Board of Governors as soon as possible" (IMF 2019).

Another source of disenchantment with the IMF has to do with its policy recommendations and mandates, which are sometimes described as "formulaic" and imbued with an economic philosophy of untrammeled free-market capitalism that may not in all respects be appropriate to Asia with its state-led economic model. The seminal event for this disenchantment was the Asian financial crisis of 1997–98, which left bitter memories of the IMF—the famous "IMF stigma"—after a number of countries (Thailand, Indonesia, and South Korea) had to accept onerous conditions such as public expenditure cutbacks and interest rate hikes in exchange for emergency funding. Especially problematic was that the conditions had grown out of, or at least been influenced by, crises in other parts of the world—such as Latin America during the 1980s (Park 2009)—where problems of large public deficits and high inflation (Park 2009) were very different from those faced by Asian countries, which had budget surpluses, tight money policies, and low inflation (Stiglitz, as cited by Essential Action n.d.). By viewing Asia through a single lens, the IMF treated what had been a financial and currency crisis caused by "an imprudent private sector—all those bankers and borrowers, for instance, who'd gambled on the real estate bubble" (Stiglitz, as quoted by Essential Action n.d.), and capital account liberalization that had been foisted on many developing countries in the 1990s, as a conventional macroeconomic crisis (Bird and Rajan 2000 [describing views of the IMF's assessment] and Sterland 2017), with predictable results of worse than necessary hardship. Since then, the IMF has acknowledged its errors and rethought its views on liberalized international capital flows, as evidenced by statements such as, "There is now a growing recognition that the short term nature

economic openness or GDP measured at market rates—which has a 60 percent weighting in the GDP component—work to the benefit of the EU or developed countries. For an excellent discussion of this, see European Parliament (2019a).

and inherent volatility of global capital flows are problematic" (Lagarde 2016) and "non-disruptive capital flows are one of the essential ingredients for a thriving global economy" (Lipton 2019). Reasons for change are that "the IMF now recognizes that capital account liberalization requires countries to reach a certain threshold with respect to financial and governance institutions, and that many emerging-market and developing countries have not" (Gallagher 2012).

A third issue has to do with funding, and whether the IMF has enough resources to rescue countries in the event of a financial crisis. Determining this is difficult because of uncertainty about how big a financial crisis might be, how many countries might have to be rescued, and whether the IMF is able to secure new funds in the future sufficient to perform its "lender of last resort" function. What is known is that the amount of funds available for lending is around US$ 535 billion less than the IMF's total resources of around US$ 1.4 trillion because of prudential and member-related reasons, according to Edwin M. Truman (2019); the Trump administration is critical of multilateralism and did not support another quota increase; and there may be a big decline in supplementary resources as bilateral borrowing arrangements and New Arrangements to Borrow expire over the next few years.[5]

What all this adds up to in terms of implications is that an AMF may have an important role to play in the global financial safety net (GFSN) in a way that better represents Asia's interests and utilizes local knowledge. An AMF would likely see Asian countries making the decisions that affect their well-being, benefiting from policies that are more designed with Asian realities in mind, and bringing additional resources to dealing with balance-of-payments or other kinds of crises. None of this is to say that the IMF would not be a part of the crisis response—or prevention—mechanism dealing with Asian problems. In one of the strange twists of history, many financial experts in Asia still see the IMF as playing an important role, at least temporarily, in a new financial framework even though they recognize that the IMF misdiagnosed the causes of the Asian financial crisis and came up with inappropriate policies that may have worsened it. Indeed, one of the big topics of discussion among financial experts is the link between the IMF and the CMIM, which is seen as one of the building blocks for an AMF. Many believe that a regional monetary fund in Asia could complement the IMF by performing similar functions but by bringing new ideas and funding arrangements to international financial governance that could strengthen the GFSN. As the IMF itself says, "Recent experience with IMF-RFA co-financing highlight: the importance of early and evolving engagement between the RFA and the Fund; the benefits of

5 In its statement of 19 October 2019, the IMF noted, "We support maintaining the IMF's current resource envelope and welcome the extension of the 2016 Bilateral Borrowing Agreements by one year. We look forward to consideration of a doubling of the New Arrangements to Borrow and a further temporary round of bilateral borrowing beyond 2020."

exploiting complementarities; the criticality of a single program framework; and the need for mutual respect of institutional independence and capacity" (IMF 2017).

Against the establishment of an AMF are a number of counterarguments. One is that the creation of an AMF will fragment the GFSN to make it less efficient, more competitive, and duplicative. Efficiency will be reduced because it is more expensive for regional institutions to raise funds (Triggs 2016), and they are slower to respond to problems because of the need for ad hoc agreements "between different institutional arrangements" (Triggs 2015); competition could arise in the policy arena; and an AMF might duplicate some functions of the IMF in a way that has little benefit for the financial safety net. A second counterargument is that moral hazard will become more problematic under an AMF because of the difficulties regional arrangements have in imposing harsh discipline on members (Triggs 2016). A third related reason is that surveillance under an AMF might be weak, which is one of the reasons why, despite all the stigma attached to the IMF, many in Asia still want to retain, at least temporarily, a link to it. A fourth reason is that cooperation within an AMF might be very difficult because of so much heterogeneity in Asia.

Each of these arguments is plausible and raises important issues about an Asian safety net, even if only in the embryonic form that is the CMIM. Upon closer examination, however, some of the arguments are questionable, and the problems they point to are not necessarily insoluble. Claims that regional financial arrangements (RFAs) are slower to respond to crises and involve higher transaction costs because of their ad hoc nature, for example, might be true, but the argument is sometimes that the IMF is the one that is slow to act "in organizing and disbursing financial assistance to the crisis-hit countries" (Bird and Rajan 2000, 136). Similarly, claims that an Asian monetary fund might duplicate the functions of the IMF might be true, but it is possible that the organizations could agree to specialize in a way that would help minimize "institutional conflict and overlapping" (Bird and Rajan 2000, 142). Efforts might also be made to improve the surveillance capacity of the AMRO, established only in 2011 and made an international organization with its own legal personality in 2016, which could improve its effectiveness and alleviate fears of lax disciplinary oversight. Concerns about heterogeneity and regional political and economic rivalries might also be dealt with by emphasizing common interests in an environment where the common glue is distrust—and admiration in some respects—for the IMF. One conclusion from this is that many of the arguments against an AMF are provisional. Whether they actually hold true depends in part on how an AMF is designed. It is to this important topic that we now turn.

3. Lessons from Europe

Dealing with the medium- and long-term issues related to the CMIM can benefit from referencing international and regional models. In what follows, we will focus on developments in Europe because that is a region that has had much experimentation in recent years and may be especially useful in shedding light on how or how not to proceed in Asia. Among the issues we consider are the development of European monetary cooperation, design characteristics of the European Stability Mechanism (ESM), how the ESM differs from the CMIM, and what lessons the European experience might have for Asia. Much of the analysis has a comparative feel to it, as identifying similarities and differences in initial conditions, financial problems, and policy responses can be especially useful in designing one's own safety net.

The ESM plays an important role in the European financial safety net. Established in 2012 as Europe was grappling with a debt crisis, the ESM exists "to mobilize funding and provide stability support under strict conditionality, appropriate to the financial assistance instrument chosen, to the benefit of ESM Members, which are experiencing, or are threatened by, severe financing problems, if indispensable to safeguard the financial stability of the euro area as a whole and of its Member States" (*Treaty Establishing the European Stability Mechanism* 2012, 10). In 1970, the European Economic Community had set up a Short Term Monetary Support facility to help countries with balance-of-payments problems, and in 1973 a European Monetary Cooperation Fund was established for currency and reserve-pooling reasons, which has some resemblance to the Chiang Mai Initiative and its offspring CMIM in their pooling function but is said to not be a precursor to the ESM. Of direct and recent relevance are the European Financial Stability Facility and the European Financial Stabilization Mechanism, temporary EU assistance facilities that provided prominent rescue funds to Ireland, Portugal, and Greece. These facilities have been replaced for new fund requests by euro-area member states by the ESM, whose creation is related to the need for a permanent stability mechanism and a desire to make financial assistance more effective. Among its design features are a governance structure made up of a Board of Governors, a Board of Directors, and a managing director and other necessary staff; the requirement that decisions by the Board of Governors and the Board of Directors be made by mutual agreement, qualified majority, or simple majority and, in the case of mutual agreement, the requirement that members participating in the vote unanimously agree; the possession of authorized capital stock of EUR 704.8 billion divided into paid-in capital and committed callable capital, the former of which has an initial value of EUR 80.5 billion; a funding strategy that involves borrowing in financial markets by issuing bills, bonds, and other instruments that do not impose burdens on taxpayers; and financial support instruments that include loans, purchase of bonds in primary and secondary markets, and support to financial institutions to recapitalize them (*Treaty Establishing the European Stability Mechanism*). Some of these characteristics are different from those of the CMIM (such as financial assistance instruments that are more diversified in the case of the ESM, including not only loans), whereas others are more similar, such as borrowing conditions. Currently, the ESM has a membership of 19 eurozone states and a staff of fewer than 200 at its Luxembourg headquarters. Assistance has been given to Spain, Cyprus, Greece, Ireland, and Portugal.

Much discussion is now taking place on reform of the ESM and the ways in which it might evolve. One criticism is that the ESM lacks accountability because it is an intergovernmental treaty that is not subject to EU law on control and oversight matters. To rectify this, the European Parliament has demanded that it be integrated into the EU's legal framework and "evolve towards a Community-based mechanism, as provided for in the ESM Treaty" (European Parliament 2019b, 12). Another issue has to do with whether the ESM should assume new functions such as acting as a backstop for the Single Resolution Fund, helping with macroeconomic stabilization, and acting as an intermediary between private creditors and countries on sovereign debt restructuring, all of which have been mentioned by the ESM's managing director (Regling 2018). A third issue has to do with whether the ESM should be transformed into a supranational body, which would help make it a European Monetary Fund.

Similar issues of development are being debated about the CMIM. One has to do with whether the membership should be expanded to include other countries, such as Australia, New Zealand, and India in a ASEAN+6-type arrangement, or even more countries in a broader grouping, as a means to boost the "firepower" of what is now an ASEAN+3 arrangement (plus Hong Kong, China). A second issue has to do with developing a CMIM conditionality framework, a task that is well suited for the AMRO. Other issues concern transforming the CMIM into a treaty-type arrangement, changing the self-managed-reserves pooling arrangement of pledged funding to one of paid-in capital, using local currencies such as the Japanese yen or Chinese yuan for CMIM activities, and creating a closer relationship between the CMIM and the AMRO.

Another issue concerning both the ESM and the CMIM is their relationship with the IMF. On this matter, the ESM is very clear in its founding document:

> The ESM will cooperate very closely with the International Monetary Fund . . . in providing stability support. The active participation of the IMF will be sought, both at [the] technical and financial level. A euro area Member State requesting financial information from the ESM is expected to address, wherever possible a similar request to the IMF. (*Treaty Establishing the European Stability Mechanism* 2012, 5)

This statement has contributed to a large IMF influence on European financial affairs in recent years even though there is no formal "IMF link" with the ESM. Manifestations of this are that conditionality on ESM loans is not too different from IMF loans and that the IMF has played a significant role in the design, procurement, and disbursement of ESM assistance. Much of this happening as a member of the Troika, which has put together rescue packages during the European debt crisis. Over time, however, the IMF's role in the crisis has diminished as its financial contributions have declined amid criticisms by non-European IMF members that "the IMF has been too active in Europe" (Regling 2018). The situation with the CMIM is, in some ways, more complicated. Although the IMF's reputation was badly tarnished by the Asian financial crisis of 1997–98, CMIM has kept a close relationship with the IMF by linking some of its funds to IMF activities as did its predecessor the CMI. That linkage, however, has weakened over time, with the percentage of delinked funds increasing from 10 percent in 2000 to 20 percent in 2005 and 30 percent in 2014. There are also calls for the delinked portion to increase to 100 percent, which would help the CMIM to become a full-fledged AMF. International groupings or organizations have also contributed to the discussion. The G20 has published nonbinding principles for cooperation between the IMF and regional financing arrangements, which "take account of region-specific circumstances and the characteristics of RFAs" (Henning 2016, in an appendix to the principles). The IMF has published a report titled *Collaboration Between Regional Financing Arrangements and the IMF,* whose topics of discussion include capacity development, surveillance, information sharing, and co-financing, a big topic in CMIM circles.

All of these activities are taking place against a background in which local circumstances are helping to define what is possible on matters of financial stabilization and regional integration. So far, Europe has become one of the most institutionalized parts so the world with its creation of the European Parliament, the European Council, the Council of the European Union, the European Commission, the Court of Justice of the European Union, the European Central Bank, and the Court of Auditors—the seven institutions that make up the institutional framework of the EU as listed in Article 13 of the Treaty on European Union. Other parts of the landscape include EU law, including directives that require EU member states to achieve objectives, albeit in a way that gives them flexibility in how they do so, the Stability and Growth Pact, the European Investment Bank, the European Investment Fund, the euro, the European Banking Union, and the ESM. The situation in Asia is different. There, there is no common currency, no central bank for Asia, no banking union, and no overarching political structure equivalent to the European Parliament. There are, however, many institutions, more than is commonly assumed, including the Asian Development Bank, AIIB, ASEAN, and the CMIM and AMRO, many of which are "soft law" in character. There is also the Asian Bond Markets Initiative, a cooperative venue of ASEAN+3 countries begun in 2003 that aims "to develop local currency . . . bond markets and promote regional financial stability and reduce the region's vulnerability to the sudden reversal of capital flows" (Asian Development Bank 2017).

What, then, are the lessons of Europe that are relevant to Asia? One is that transparency and accountability matter. The issue in Europe has to do with the relationship of the ESM to the EU's legal framework, which is a situation unique to Europe. Yet the transparency and accountability issue has also arisen in Asian financial circles in relation to assurances that might be given for CMIM long-term financing in partnership with the IMF as the CMIM evolves. Putting the CMIM on a stronger institutional foundation would be a way to deal with an issue of this type that might be of concern to taxpayers. A second lesson is to beware of a common currency. Although creation of the euro has had benefits for European integration on matters such as trade and investment, it has created problems by preventing eurozone members from dealing with balance-of-payments difficulties with devaluations. Without proper attention to the design of a currency union, a single currency could create financial instability in Asia. A third lesson is that the IMF can play a positive role in financial crisis management as one part of the GFSN. Here, the key point is that the IMF today is not the same IMF of 1997–98. With a great amount of resources, even if alone not enough to deal with a large financial crisis in Asia, and a great amount of expertise in surveillance, the IMF can act as a partner to the CMIM. In the long run, however, the CMIM would probably want to eliminate its dependence on the IMF as it develops its own surveillance capacity and conditionality requirements as it becomes a more full-fledged Asian monetary fund. A fourth lesson is that strong leadership is needed to prevent and fight "financial fires"—and the leadership needs to be of the right type. Cooperation between Germany and France has facilitated regional integration in Europe, but it has not always been smooth, and questions have arisen about whether a focus on fiscal deficits—often associated with Germany—is correct. Similar cooperation between China and Japan might be more difficult because of strategic rivalry, but cooperation is occurring in one area, as both nations support continued IMF cooperation with the CMIM. A fifth lesson is that one size does not fit all. There need to be allowances for conditions in different parts of the world in the design of regional financial arrangements. What works in one part of the world may not work in another. For example, developing a monetary union may not currently be the right project for Asia (Eichengreen 2003; Park 2007). At the same time, Asia may have much to learn from Europe on matters such as financial regulation and may wish to consider the interesting idea put forward by a Bank of England official of "stress testing" of countries (Shafik 2015).

4. Conclusion

The purpose of this paper has been to provide ideas for reforming the CMIM and moving toward an Asian monetary fund. It has examined the reasons why a more elaborate financial crisis prevention and response mechanism is needed, issues that reform efforts will have to grapple with, and lessons from the European experience that may be valuable for Asia, with particular regard to the ESM. The main conclusion of the paper is that Asia needs to create a regional financial arrangement that has as its main focus Asian needs. It should not, however, be a "fortress Asia" that cuts itself off from the expertise and resources of other parts of the world. Rather, it should be one part of the GFSN that also includes foreign exchange reserves, bilateral swap lines, and IMF assistance, which can be useful at least in a transition period.

Among the elements of a new safety net—if reforms are enacted—would be a more institutionalized CMIM based on an international treaty with paid-in capital that goes beyond mere promises to provide funds in the case of a financial crisis; an improved indigenous surveillance and monitoring capacity and development of a conditionality framework that will inevitably be needed; creation of a permanent secretariat for the CMIM, with employment of more people by the AMRO and an eventual merger of the two; and expanded functions of a new organization, or the existing CMIM, such as macroeconomic stabilization, as has been suggested for the ESM (Regling 2018). Other elements might include use of local currencies in financial assistance in addition to the U.S. dollar, continued cooperation with the IMF on matters such as information sharing and "test runs" for co-financing, and enhancement or commencement of cooperation with other regional activities such as the Asian Bond Markets Initiative. The purpose of these activities would be to create a more effective RFA that would have the technical capacity and financial resources to deal with liquidity-related problems.

Obstacles to achieving these reforms are fear of giving up too much power to supranational institutions, intra-regional rivalries, and large foreign exchange reserves and bilateral swap arrangements, which can reduce the incentive for regional cooperation. These obstacles are not necessarily insurmountable, but they require careful attention by governments not to block reform efforts.

In going forward, Asia should try to learn from the experiences of other RFAs, be realistic about what is possible in Asia, and distinguish between shorter-term issues such as lending resources—which need to be increased—and longer-term issues such as creation of an Asian common currency, which may or may not be desirable or easily workable without careful design.

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