



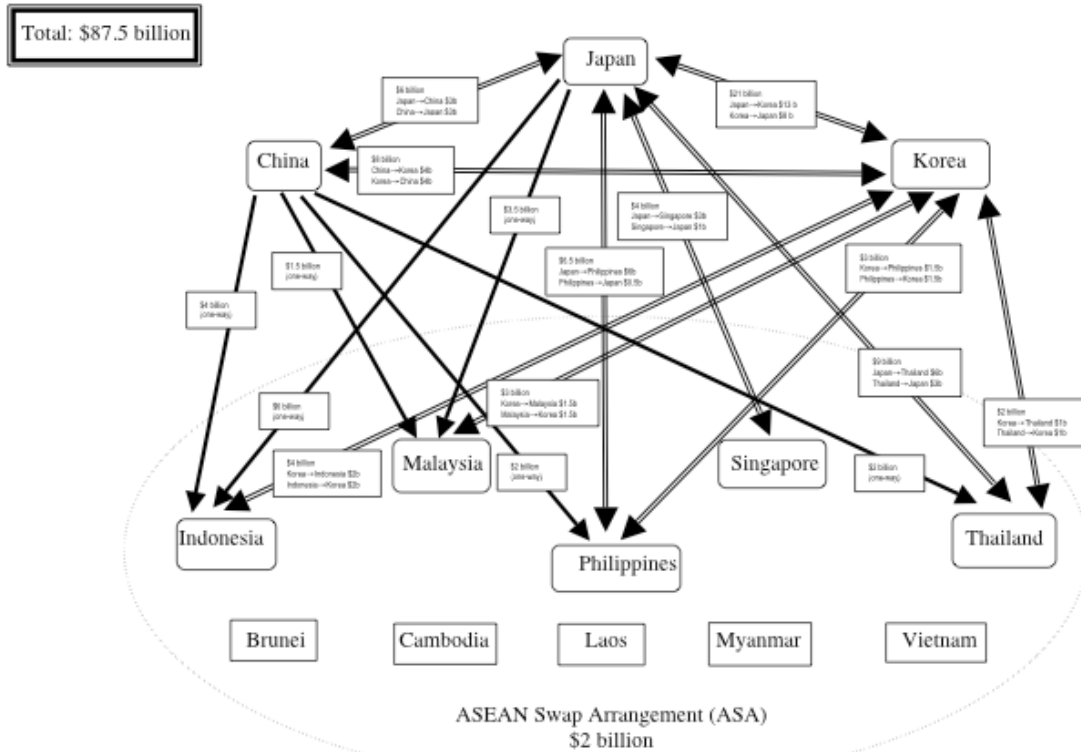
# Regional Liquidity Arrangements in Asia: Lessons from the Financial Crisis

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# East Asian Financial Architecture

- Elements of financial regionalism
  - Emergency liquidity provision (Chiang Mai)
  - Bond market development
  - Coordination and surveillance
- Regionalism vs. globalization
  - Nesting within global architecture
- Self-help
  - Flexible exchange rates
  - Massive foreign exchange reserves

# Chiang Mai Initiative



Source: Ministry of Finance of Japan.

Notes: 1. One-way arrows denote one-way swaps, two-way arrows denote two-way swaps.

2. This figure does not distinguish between dollar-based and dollar-equivalent local-currency BSAs.

3. Malaysia-Japan BSA includes New Miyazawa swap (\$2.5 billion).

4. Total includes all BSAs (including New Miyazawa) plus ASA.

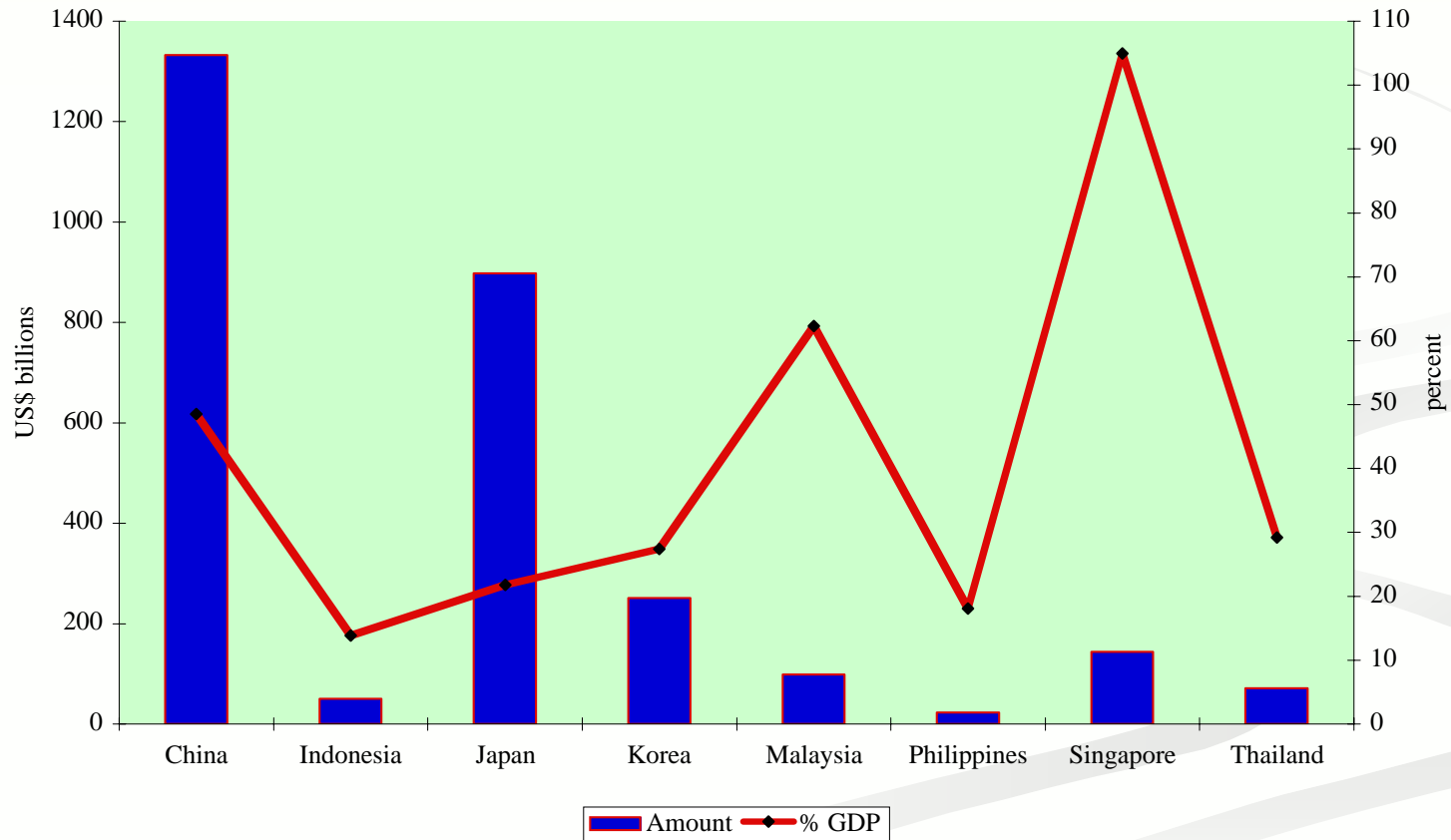
5. Japan-China BSA is local-currency swap between central banks: \$6 billion of Japan-Korea (\$3 billion each way) is local-currency central bank swap

# Financial Regionalism as Insulation

- Chiang Mai Initiative
- Bond Market initiatives (ABMI, ABF)
  - Meant to address double mismatch
  - Reduce role of dollar-based markets for intermediation
- Currency initiatives
  - Currency baskets to reduce dollar role
- In sum: Reducing vulnerability through partial decoupling

# Self-Help vs. Financial Regionalism

Foreign Exchange Reserves, End of June 2007



# Limits to Decoupling

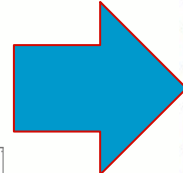
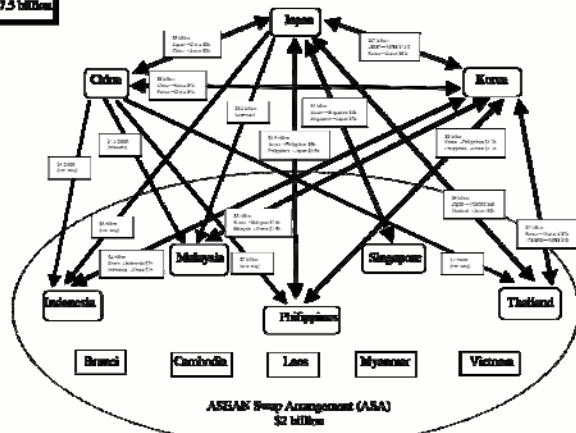
- Little progress on financial decoupling
  - Local-currency bond markets still underdeveloped
  - Macroeconomic and currency coordination non-existent
- Why not?
  - Leading countries cannot provide meaningful rewards of punishments (“public goods”)
  - Bond initiatives: self-paced, voluntary action
  - De facto coordination has been focused on dollar; neither yen nor synthetic currency can replace
- These conditions are not likely to change

# Challenge of the Global Crisis

- Transmission mechanisms
  - Hot money flows
  - Trade effects
  - Access to development credit
- Hot money has not injured Asia
  - Exchange rates have adjusted
  - Financial institutions manageable domestically
- The Greek crisis
  - Trade effects
  - Solvency concerns

# CMI Multilateralization

Total: \$17.5 billion



Source: Ministry of Finance of Japan.  
 Notes:  
 1. Only one-way currency demand swap arrangements, two-way currency demand one-way swaps.  
 2. Table figure shows zero, distinguish between dollar-denominated and dollar-asset-backed local-currency EMAs.  
 3. Malaysia-Japan EMAs includes Myanmar-Burma Bilateral Swap (\$2.3 billion).  
 4. Total includes all EMAs (including New Bilateral Swap) plus ASA.  
 5. Japan-China ASA in local-currency assets-bilateral credit limit: 50 billion of Japanese Yen (10 billion each year) in local-currency-denominated assets.

Attachment 1 CMIM CONTRIBUTIONS AND PURCHASING MULTIPLES

	Financial contribution		Purchasing Multiple
	USD (billion)	(%)	
China	China (Excluding Hong Kong, China)	28.50	0.5
	Hong Kong, China	3.50	
	38.40	32.00	
Japan	38.40	32.00	0.5
Korea	19.20	16.00	1
Plus 3	96.00	80.00	-
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
Philippines	3.68	3.07	2.5
Vietnam	1.00	0.83	5
Cambodia	0.12	0.10	5
Myanmar	0.06	0.05	5
Brunei	0.03	0.02	5
Lao PDR	0.03	0.02	5
ASEAN	24.00	20.00	-
Total	120.00	100.00	-

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

# Will CMI Become AMF?

- “Reserve pooling”
  - Commitment of funds (albeit self-managed)
  - Standardization of contract
- Does “multilateralization” mean autonomous decisionmaking?
  - Procedures and voting shares
  - IMF Link
  - Surveillance—ERPD, AMRO
  - What standards affect release of funds?

# Cases in Point

## ■ Korea, 2008

- Crisis of confidence despite forex reserves
- Inadequacy of CMI (or even CMI partners) to address speed, scale, & nature of crisis
- Striking confirmation of global role of US\$

## ■ Greece and the PI(I)GS, 2010

- Macroeconomic policy coordination is always difficult
- EU is the best example of rule-based coordination
- Domestic politics trump regional commitments

# Dilemmas of Regionalism

- Institutionalization not a substitute for hegemony
  - Kindleberger called it “leadership”
  - But hegemony has its temptations...
- Insulation from the US is impossible
  - Continued role of US and IMF in crises
  - Effects of G-20, fragmentation of monetary power?
- Role of Japan and China
  - Japan and China have financial capacity for crisis management, but long-term cooperation challenging to say the least
  - Also, neither has a plausible vision of a future regional architecture that is open, stable, and integrated
- Ad hoc self-help will prevail

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