

GLOBAL ECONOMIC GOVERNANCE INITIATIVE



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# Nested Outgrowth

## COMPLEMENTING REGIONAL SURVEILLANCE UNDER LIMITED CAPACITY

**YAECHAN LEE, WILLIAM N. KRING AND WILLIAM W. GRIMES**

### ABSTRACT

The rise of regional financial arrangements (RFAs) over the last two decades has significantly reshaped the Global Financial Security Net (GFSN), which was previously almost the sole purview of the International Monetary Fund (IMF). While the rise in regionally based financial resources has been widely noted, as have the challenges of coordinating IMF and RFA funding and conditionality in the event of a crisis, there has to date been very little empirical analysis of the surveillance activities of RFAs. Surveillance is extremely important to the work of RFAs. It is essential to the tasks of early warning and crisis management and represents perhaps the most important organizational capacity that RFAs must develop. This paper focuses on the surveillance activities of the ASEAN+3 Macroeconomic Research Office (AMRO), which supports East Asia's \$240 billion Chiang Mai Initiative Multilateralization (CMIM), through analyzing AMRO and IMF surveillance reports and activities across multiple dimensions. The results of the analysis suggest that AMRO has been able to achieve a *nested outgrowth* from the IMF as it remains nested within the IMF in terms of its policy directions and data reference but also demonstrates important differences in how it approaches and interprets key policy issues. We then conduct a detailed comparative analysis on the institutional structure and design of the IMF and AMRO to find that fundamental differences in institutional design and structure are allowing for such outgrowth.

**Keywords:** CMIM, IMF, AMRO, Surveillance, Asia-Pacific



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## INTRODUCTION

Recurring financial crises and increasing volatility in financial markets have revealed apparent gaps in the International Monetary Fund (IMF)'s crisis response. Efforts at the regional and bilateral level in addressing these gaps led to the development of regional financial agreements (RFAs) and aggressive signings of bilateral swap arrangements that can serve as an additional source of emergency credit against financial crises. These developments have led to the quantitative expansion and diversification of the Global Finance Safety Net (GFSN) but have simultaneously raised concerns on the effectiveness of this expansion. For instance, credit extensions from RFAs that either have overly loose conditionalities or lack proper ex-ante evaluations of the debtor country may instigate moral hazard issues that may conversely aggravate the ongoing crisis. The absence of sustained communication between the IMF and RFAs may also lead to over-lending to economies that have established sufficient levels of financial resilience while overlooking those in real need. Increasing reliance on non-IMF components of the GFSN without the prior establishment of strong cooperative ties with the IMF may make it difficult to keep the conditionalities and lending practices consistent for improved effectiveness as the GFSN becomes fragmented.

Hence, numerous studies have called for better cooperation between the IMF and RFAs, especially in maintaining consistencies in conditionality and lending practices, along with central banks that have been progressively establishing credit swap lines (Kawai et al. 2016; Cheng et al. 2020). However, while such complications involving the diversification of financial resources within the GFSN have been widely noted, there has to date been very little empirical analysis of the surveillance activities of RFAs and their connection to the IMF. Surveillance is a vital function of the IMF. As a 'core responsibility', surveillance activities by the IMF involve annual consultations with member states to assess and devise appropriate policy recommendations to prevent the build-up of crises at an earlier stage and promote the macro-stability of the international monetary system (IMF 2021a; Edwards 2018). In other words, IMF surveillance activities make a qualitative contribution to bolstering the GFSN that accompanies the quantitative contributions from the IMF's financial resources. Studies have found, however, that the IMF's policy recommendations often reflect the political power of member states within the IMF (Lombardi and Woods 2008; Frazscher and Reynaud 2011; Thacker 1999). This implies that the policy outputs of IMF surveillance may be biased towards the perspectives and interests of more powerful economies, undermining the effectiveness of the activities' qualitative contribution to preventing crises and bolstering the GFSN.

In response, studies have argued that the development of independent surveillance capacities by RFAs and ensuing collaboration between the IMF and RFAs can help reduce this apparent bias (Volz 2012). Then, by incorporating the views presented by the independent surveillance activities of RFAs, the IMF can present a more balanced policy recommendation that speaks to a wider membership. In this respect, it is important to assess how the surveillance outputs of RFAs with members that are relatively under-represented in the IMF either differ or align with those of the IMF. This would not only help readers identify points of complementarity and room for improvement so that the RFAs and IMF can continue to develop independent, yet complementary insights that may improve the effectiveness of policy recommendations, but also put a spotlight on the views of under-represented members that are expected to deviate more from those of RFAs with better representation within the IMF.

Only a few RFAs, including most prominently the Chiang Mai Initiative Multilateralization (CMIM)/ Macroeconomic Research Office (AMRO), the European Stability Mechanism (ESM) and the Latin American Reserve Fund (FLAR) have developed independent surveillance capabilities. Of these,



both AMRO and ESM are quite new institutions, and FLAR does not publish its surveillance products. Thus, there is virtually no research that empirically compares RFA surveillance outputs to those of the IMF. In this paper, we compare the surveillance activities of the IMF and AMRO by assessing their annual surveillance reports and activities to identify points of overlaps and divergences in search for complementarities and differences. AMRO is the only RFA-related regional organization apart from the European Commission that has institutionalized annual consultations with member states and made them publicly available to strengthen its surveillance function. This also offers a useful lens into CMIM—since the CMIM has not been tapped in past financial crises, the outputs of AMRO surveillance activities offer the only empirical means of comparing the approaches of AMRO/CMIM with the IMF.

To that end, we conduct a detailed comparative analysis of the surveillance outputs of the IMF and AMRO across three dimensions (referencing, policy recommendations and analytical approach) and demonstrate that AMRO has achieved a *nested outgrowth* from the IMF. By directly referencing the regional policymakers' opinions in the surveillance reports, we find that AMRO is serving as a platform for candid discussions on policy issues and recommendations. AMRO's case-based and inside-out perspective also present an in-depth insider's take on key policy issues in the region, complementing the topical and outside-in approach of IMF surveillance reports. Yet, despite such complementarities, our analysis also finds that AMRO's surveillance functions remain essentially nested in the IMF (Kring and Grimes 2019; Aggarwal 1998) as the directions of its policy recommendations and data sourcing rely heavily on those of the IMF. As such, AMRO's surveillance reports allow for a more candid, insider's perspective on policy issues, but the resulting policy recommendations hardly contrast with the IMF. This demonstrates that there is a clear *outgrowth* of AMRO from the IMF in terms of its surveillance outputs but that the outgrowth remains *nested* in the IMF.

We then contend that such an outgrowth comes from differences in the IMF and AMRO's institutional design that allows for the development of complementarities. The institutions' foundational agreements that provide the legal basis for conducting surveillance activities lead to differences in how each institution incorporates the policy opinions of member states in bilateral consultation reports. Such characteristics are also reflected in the annual regional reports, where they take a more case-based approach to assessing the regional economy. Hence, despite the current institutional nesting of AMRO under the IMF, fundamental differences in institutional foundations can lead to complementary divergences as such differences put institutions on dissimilar developmental paths. In this respect, we argue that understanding the differences in institutional features are essential to understanding "how RFAs relate to the IMF and define the GFSN" (Kring and Grimes 2019, p.35). While this paper does not seek to answer the question of why AMRO's economic surveillance remains nested in the IMF, our previous work on the institutional design and member politics of CMIM suggest that it is likely political tensions among member states continue to nest AMRO's outgrowth in the IMF (Grimes 2015; Grimes and Kring 2020; Kring and Grimes 2019).

The paper proceeds as follows. We begin by justifying the importance of this article in advancing the literature on RFAs and the IMF. Then, we identify a methodological framework for our analysis to find evidence for our assertions starting from a meticulous comparative analysis on the characteristics, trends and focus areas of AMRO and IMF's surveillance reports from 2016 to 2020 to identify their differences, similarities and resulting points of complementarity. We explore the causes for such divergences focused on comparing the foundational agreements which provide the legal basis for the IMF and AMRO's surveillance activities and identify limitations that may hinder the continued outgrowth of AMRO surveillance relative to IMF surveillance. Finally, we end with concluding remarks and discuss the theoretical and policy implications of this paper's findings.



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## SIGNIFICANCE OF RESEARCH

The IMF has traditionally played a central role in extending emergency liquidity to distressed markets. Its stringent loan conditionalities and market-correction policies, which have often not taken sufficient account of country-specific conditions, have made its liquidity support facilities unattractive for many developing economies. Insofar as the demand for emergency liquidity has not waned, however, RFAs along with other components of the GFSN emerged to share the IMF's traditional role as the lender-of-last-resort. The IMF has also responded to criticisms of its programs through expanding its unconditional loans and better considering country-specific conditions in its surveillance reports (IMF, 2021b). However, with other components of the GFSN already playing a crucial role in providing anti-crisis support to distressed markets, how the IMF can cooperate with or lead the diversifying components of the GFSN became a major policy concern (Volz 2016; Cheng et al. 2018; Scheubel et al. 2019; Gallagher et al. 2020). Especially, as some RFAs began to develop their own surveillance capacities, their interaction with the IMF in providing quantitative support through extending anti-crisis credit to distressed markets and qualitative support through establishing early warning systems, financial surveillance services and annual consultations has brought a stronger spotlight to the rise of RFAs and its impact on the GFSN.

The positive impact of the RFAs' increasing importance in the GFSN has been repeatedly noted in existing studies. Muhlich and Fritz (2018) find that while most liquidity support programs continue to be made by the IMF as it remains the only choice for many countries, the rise of RFAs has begun to fragment the reliance on IMF. They argue that as the timeliness of the loans has played a decisive role in applying for loans from the institutions, the RFAs that have facilitated the disbursement process have begun to serve as an effective source of anti-crisis credit. Edwards (2019) argues that the benefits of the RFAs' rise are also significant in diversifying policy perspectives as alternative surveillance institutions can reduce the potentially biased policy recommendations made by the IMF and the WTO through information competition. Such improvements, however, Henning (2020, p.2) argues, can be beneficial "only if the different elements are effectively coordinated and thus do not interfere with one another in a crisis."

Existing studies have, therefore, either mostly focused on how the RFAs' added lending capacities either disrupt or help enhance the GFSN and how policymakers can achieve the better scenario through coordination between the IMF and RFAs (Cheng et al. 2018; Kahler, 2017; Henning 2017; Kring and Gallagher 2019; Kring and Grimes 2019). Only a few studies, however, have sought to explore the impact of the RFAs' increased surveillance capacity on that of the IMF (Grimes and Kring 2020). The lack of studies of RFA surveillance creates an incomplete picture of the relationship, however. The impact of the RFAs on the GFSN is both quantitative and qualitative in nature in that RFAs not only enlarge and diversify the safety net, but also potentially provides alternative policy perspectives to those produced by the IMF. Thus, this gap in research must be adequately addressed to accurately analyze the interaction between RFAs and the IMF.

The current gap comes from the relative lack of empirical analysis of the surveillance activities of RFAs. Volz (2016) emphasizes the need for surveillance activity cooperation between RFAs and IMF by pointing out the potential inefficiencies coming from non-coordination but does not empirically discuss how such negative effects are manifested in the surveillance outputs of the institutions. Grimes and Kring (2019, p.428) analyze AMRO's progress toward autonomy from the IMF by tracing the development of its institutional design along with the potential impact of AMRO's surveillance capacity development to the governance structure of the GFSN as "the ability to delegate surveillance and program design to an independent body is a crucial prerequisite" to the RFAs' independence from the IMF. However, due to the relative lack of output from AMRO at the time the article was written, they provide only a preliminary empirical investigation of how the AMRO's





surveillance capacity development has developed in comparison to that of the IMF. Therefore, this paper conducts a comparative analysis of the surveillance outputs of AMRO and the IMF to identify where they overlap or diverge. Then we contend that the identified points of difference or complementarities of the outputs are caused by inherent differences in the institutional characteristics of the IMF and AMRO. This finding adds additional significance to this paper as we demonstrate how differences in institutional design can enable even institutions with limited capacity to produce effective outputs that complement the outputs of parallel institutions with higher capacity.

## **METHODOLOGY**

We conduct a twofold analysis to find evidence for our arguments: first, an empirical analysis on the surveillance outputs of AMRO and IMF to identify their similarities and differences, and second, an institutional analysis to identify the causes of the observed divergence or convergence.

For the first analysis, we assess AMRO and IMF surveillance outputs both at the country and regional level across three parameters: referencing, analytic approaches and policy recommendations of the reports. The three parameters sequentially capture the basic processes involved in conducting policy research: data collection, establishment of analytical framework and resulting policy recommendations. First, through the referencing parameter, we assess what data sources the two institutions use and refer to. Through this, we gauge the inter-linkage between the two institutions by tracking how much their reports cross-reference. A mutually equal level of cross-referencing would show that AMRO is indeed beginning to grow out of the IMF's 'nest' (Kring and Grimes 2019). On the other hand, a unilateral referencing from either institution may show an institution's dependence on the other. Second, the analytical approach parameter captures how the two institutions analyze and interpret their acquired data. Through this we identify differences in the two institutions' methodological approach and perspective. Lastly, the policy recommendations parameter assesses the two institutions' approaches to policy in three major discussions in the reports: trade liberalization, macroprudential policy and usage of fiscal capacity. Through this we capture the output of the two institutions' data collection and analysis.

We run a comparative assessment of the parameters for the two institutions through conducting an extensive qualitative assessment of surveillance reports produced in the observed timeline (2016-2020). A total of three AMRO Regional Economic Outlook (REO) reports and 38 country surveillance reports were analyzed from AMRO. The corresponding number of IMF REOs, along with bilateral country surveillance reports from the IMF were analyzed for coherence as well. In total, a combination of 82 REOs and bilateral country surveillance reports were assessed.

We then conduct a comparative institutional analysis on the institutional structure and foundational agreements of the IMF and AMRO to identify the causes of divergence or overlaps in the institutions' surveillance outputs. As Wendt (2001) rightfully argued, the design, structure and technical capabilities of an institution critically impact how institutions act or perform. We find that this applies similarly to the surveillance outputs of the IMF and AMRO. Hence, our methodology involves the development of a novel framework for empirically comparing the surveillance outputs of institutions and an accompanying institutional analysis that aims to explain the outcomes of the previous analysis.

## **COMPARATIVE ANALYSIS OF AMRO AND IMF SURVEILLANCE**

This section conducts a comparative qualitative analysis of the surveillance reports published by the IMF and AMRO from 2016 to 2020. The IMF has been publicizing its country and regional level reports for a much longer period but given that AMRO surveillance reports began to be officially



published since 2017, a year after its official ratification as an individual international organization, we limited our observation of IMF reports of the same time period for coherence. Table 1 provides a brief overview of our findings across three dimensions: referencing, policy recommendations and analytic approaches. Then we provide detailed qualitative assessments of each dimension in the remaining parts of this section. We find that AMRO surveillance remains nested in the IMF in terms of its data reliance and policy view but also find clear points of divergence in AMRO’s analytical approaches in assessing member states and the regional economy.

**Table 1: Comparative Analysis of AMRO and IMF Surveillance (2016-2020)**

Dimensions	AMRO	IMF
<i>Referencing</i>		
Cross-reference	Yes, AMRO frequently makes use of IMF datasets and publications	No
Reference to local policymakers’ opinions	Yes, Direct reference	Yes, Direct reference
Self-reference	Yes, but in partnership with other institutions. AMRO makes more staff calculated references for bilateral than multilateral reports.	Yes, extensively
<i>Policy recommendations</i>		
Trade Liberalization	Intra-regional trade should be significantly liberalized to reduce reliance on outer-region economies and reduce the effect of exogenous shocks on the regional economy.	
Capital flow management	Capital flows should be liberalized but management measures may be possible on the grounds that the measures are temporary, non-discriminatory, and targeted. Flexible exchange rates should be the first line of defense against external shocks. (IMF REO 2018)	
Fiscal policy	Expansionary fiscal policies as part of a macroprudential measure, such as countercyclical lending is recommended but should accompany other structural reforms such as more stringent liquidity requirements, loan-to-value ratios and more.	
<i>Analytical approach</i>		
Methodological approach	Case-based approach	Topic-based approach
Perspective	Inside-out perspective in assessing regional vulnerabilities and making policy recommendations	Outside-in perspective

Source: IMF, AMRO, author compilation, 2016-2020.

### Policy Recommendations

Three main policy issues (trade, capital flow and fiscal policy) were assessed to compare and/or contrast the policy recommendation directions of AMRO and the IMF. We refer to Rathin and Ramos (2012) in deciding the policy issues for analyzing the policy recommendations of the surveillance reports, along with the observation of recurring main policy themes across reports. Based on our comparative analysis of the identified three policy issues, we find that the reports’ policy recommendations are closely aligned, even in how they define key terms such as macroprudential measures



(MPM) or capital flow management (CFM). How they justify their recommendations, however, is different. For instance, in the 2019 REOs, AMRO makes extensive use of a case study on the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to provide evidence for how trade liberalization can boost the regional economy, but the IMF mostly uses quantitative measurements to accomplish the same task, with a brief mentioning of cases such as the CPTPP. Overall, the resulting policy directions are closely aligned. This difference in approach will be further discussed in the following sub-section.

Getting into the details of the major policy issues observed, both AMRO and the IMF call for significant liberalization of restrictive trade within the region. Under the mutual recognition that the incorporation of the ASEAN+3 member states into the global value chain has significantly contributed to the resilience and growth in the region but simultaneously left the region more vulnerable to external shocks, the policy recommendations by AMRO and the IMF focus on enhancing intraregional trade as a solution. Both institutions argue that liberalizing intraregional trade would be able to answer to the falling export scores of major economies in the region and increase regional resilience against extra-regional shocks. AMRO and the IMF's views on capital flows are also strongly aligned according to the IMF's institutional view on capital flows (IMF 2018). They both recognize the adverse effects of capital flow volatility, especially when the economy has a weak balance of payments that leads to insufficient foreign reserves with which to backstop sudden external drains instigated by the global monetary cycle. Yet they also emphasize the overall positive effect of maintaining a free capital account and caution policymakers against extensive CFMs, insisting that they be temporary, non-discriminatory and targeted. Flexible exchange rates should be the first line of defense against external shocks. In terms of fiscal policy, both institutions support expansionary fiscal policies when available for growth but also stress the importance of accompanying MPMs to prevent increased government spending from weakening the economy's financial fundamentals. In other words, structural reforms should accompany fiscal expansionary policies.

Despite the close alignment in the directions of the policy recommendations, AMRO and the IMF reports differ in how they communicate the justifications for the recommendations to the readers. For instance, when discussing the impact of volatile capital flows in the region, AMRO reports would extensively assess the sources of volatility through a case-based approach, such as modeling the effects of U.S. interest hikes to shed light on the EMEs' perspective on capital flow volatility and the necessity of cautious CFMs. On the other hand, the IMF reports focus more on how specific macroeconomic themes, such as exchange rates, affect the region's exposure to the global cycle while making the same conclusions as AMRO. These differences also indicate that AMRO has an 'inside-out' perspective to assessing policy issues as opposed to the IMF's 'outside-in' perspective, which implies that AMRO makes assessments on the region from an insider's perspective, shifting its focus of analysis to the effect of externalities on the region's sustained development. The IMF reports, on the other hand, take an outsider's approach to policy issues in the region and puts a heavier focus on addressing the region's internal vulnerabilities.

## Analytical Approach

Such differences come from AMRO and the IMF's differences in their analytical approach, or more specifically, their *methodology* and *perspective* in assessing policy issues. First, as reflected in how AMRO communicates its policy recommendations, AMRO's methodological approach involves a more case-based, historically oriented approach while the IMF takes a more topic-based, current issue-focused approach. This does not imply that the institutions solely employ the respective approaches but rather that there is a markedly higher frequency of such approaches in the reports observed. This is demonstrated in how the two institutions address the issue of external spillovers to the region.

In trade, for instance, AMRO's REO in 2019 conducts a detailed case study on the US-China trade dispute to specifically assess the spillovers of the dispute on the regional economy. On the other hand, the IMF generalizes it as an increase in protectionism and observes macroeconomic indicators to quantitatively gauge the impact of trade protectionism. Such tendencies are repeatedly demonstrated in how the institutions approach key events in the region such as the CPTPP or interest rate hikes from the Federal Reserves. These differences also lead to differences in how each institution sets the theme for the regional surveillance reports. The IMF REOs often carry a clear theme that focuses on specific macroeconomic factors of the economy while AMRO REOs carry a more holistic theme. 2017, for instance, was demographics; 2018, inflation and 2019, capital flows. The themes of AMRO reports are markedly broader than those of the IMF. 2017 was the inaugural year where AMRO reviewed the Asian Financial Crisis (AFC); in 2018, the REO discusses how to improve resilience through various channels, and in 2019, it mainly discusses how to improve growth capacities for new economies. Differences in methodological approach are also revealed in how the institutions assess risks. In assessing the impact of capital flows in the region, for instance, AMRO focuses on a case-based observation to conduct detailed case studies on the spillovers and buildup of the AFC and the Global Financial Crisis with the aim of learning from these experiences to highlight the danger of volatile capital flows in its country-level and regional-level reports. On the other hand, the IMF mainly observes the current implications of this risk based on macroeconomic data on the net capital flows and their relation to the global cycle.

The analytical approaches of AMRO and IMF surveillance also conspicuously differ in terms of their perspective. AMRO reports focus on what the insiders may view as the key challenges to regional development and stability. Naturally, the reports focus less on internal regional vulnerabilities but make extensive assessments on potential externalities such as US tax reforms, business/credit cycles, trade disputes and identify how they may impact the regional economy's sustained development. Hence, AMRO's perspective involves looking out from the inside, or an 'inside-out' perspective. This is also reflected in how the country-level reports directly give voice to the policy opinions of member states, as aforementioned. The IMF, on the other hand, looks in from the outside, focusing on assessing the internal vulnerabilities of the region and its economies and how they relate to the spillovers from externalities, briefly discussed. For instance, in gauging the impact of the spillovers from externalities in regional capital flow volatility, AMRO's REO in 2019 makes an extensive discussion on the *sources* of the spillovers, namely the Federal Reserves' interest rate hikes or the US's tax reforms. On the other hand, the IMF's REO in the same year recognizes the existence of external shocks but focuses on assessing how the region's inherent vulnerabilities, such as exchange rates, stand against the shock.

Such differences in AMRO's analytical approach to surveillance can significantly complement IMF surveillance as it presents a more detailed, insider's perspective on the policy issues that are also similarly discussed in IMF reports. Hence, although the resulting policy recommendations of these institutions are closely aligned, AMRO's distinctive approach to reaching such conclusions can provide case-based details of key economic events of the region from a regional perspective, complementing the topic-based, outsider perspective of the IMF.

## Referencing

AMRO also markedly differs in how it references data and its sources of data from the IMF. We find that this partially contributes to the apparent differences in AMRO's analytical approaches despite AMRO's limited institutional capacities compared to those of the IMF in terms of its size and experience. As Henning (2011, p.16) anticipated, AMRO is indeed still "too small to replicate the work of the IMF." It is under the process of developing its unique analytical toolkit and expanding its access to original data directly from its member states. Naturally, our analysis finds that AMRO





is still heavily reliant on the IMF for data and analytic insights. Every surveillance report observed made extensive references to IMF data and reports and often directly used the analytic frameworks employed by IMF surveillance reports.

Nevertheless, the datasets and insights employed by AMRO surveillance reports are not simple echoes of the IMF. As Henning (2011, p.16) proposed. The IMF also provides space for local policy-makers to comment on the policy recommendations and analysis made by the IMF and outline their responses to them. AMRO does this too, but it goes beyond to provide space for policymakers to advertise their new policy innovations or provide additional policy insights beyond the comments and policy recommendations made by AMRO. This allows it to serve as a platform for a “surveillance discussion in which Asian officials might be more candid with one another than in the presence of officials from outside the region.” Such referencing provides new insights that are not visible in IMF reports, which tend to only make brief and indirect mentions of the member states’ perspectives. AMRO also makes self-references to a limited portion of the data used but in partnership with either the IMF or other international organizations such as the World Bank given their apparent limitations in capacity. On the other hand, the IMF makes extensive self-references, extracting data from its own datasets and processing data provided by member states. It does not, however, cross-reference the data and insights published by the surveillance activities of AMRO. Such one-way referencing between AMRO and the IMF indicates that AMRO surveillance reports are essentially nested in the IMF, while also producing some unique insights and datasets.

How then, was AMRO able to develop its own approach to surveillance that we identify in this section within a relatively short time, given its apparent limited capacities and reliance on the IMF? The following section presents an institutional explanation to identify the main drivers that allowed for such outgrowth.

## **HOW DIFFERENCES IN INSTITUTIONAL DESIGN ALLOW FOR ‘NESTED OUTGROWTH’**

We point to two main institutional factors that allowed for AMRO’s outgrowth in its analytical approach from that of the IMF: foundational surveillance design and institutional structure. Based on a comprehensive review of the foundational agreements of the IMF and AMRO that provide the legal basis for conducting surveillance activities, we find that clear differences in clauses that define the mandates of member states in supplying demanded data and compliance to policy recommendations. These differences lead to divergent approaches to conducting surveillance. We also find that AMRO’s internal structure, which integrates economic and financial surveillance functions under a single department, has contributed to the relatively quick development of AMRO’s surveillance functions and the promotion of a case-based approach to assessing policy issues. These findings suggest, therefore, that AMRO has been able to achieve a nested outgrowth from the IMF as it remains largely nested within the IMF in terms of its policy directions and data reliance but also demonstrates major differences in how it approaches policy issues. This section provides detailed justifications for these assertions.

### **Differences in Foundational Surveillance Design**

We argue that differences in the foundational surveillance design of AMRO and the IMF account for the differences in perspectives in the analytical approaches of their surveillance outputs. The basic surveillance framework of the IMF and AMRO is similar, as AMRO’s surveillance function has been modeled after that of the IMF. However, they show clear distinctions in the level of policy and data disclosure compliance from their member states, with the IMF having significantly stricter terms of

engagement. Article IV in the IMF Articles of Agreement provides the following rationales for IMF's objectives in conducting annual consultations with member states. First, the IMF consultations provide the data and insights needed for conducting a macro-analysis on the international monetary system to induce effective cooperation among the fund's members. Second, the consultations seek to induce compliance in the IMF's institutional views through making policy proposals. Lastly, the consultations help the IMF oversee the exchange rate policies of its members (IMF 2020). On the other hand, AMRO's approach to inducing compliance from its member states is much more informal and consensual. AMRO's surveillance activities are operated based on Article 4 of the "Agreement Establishing ASEAN+3 Macroeconomic Research Office," which states that "each member shall provide AMRO with relevant information and assistance as may reasonably be required for its surveillance and other activities provided for under Article 3 to the extent permissible under its applicable laws and regulations" (AMRO 2016). AMRO's Article 4, however, has significantly less stringent terms in comparison to IMF's Article IV. For instance, IMF's Article IV stipulates that "the Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member," (IMF 2020) posing the Fund's status as an overseer of its member states. On the other hand, the corresponding AMRO terms leave significant individual policy space to member states by adding that "members shall be under no obligation to provide information in such detail that the affairs of individuals or corporations are disclosed" (AMRO 2016). As such, AMRO's member states are obligated to provide information only to the extent they deem necessary.

While such loose terms may raise concerns on the reliability and accessibility of data from the member state economies, our analysis demonstrates that AMRO's horizontal approach to surveillance is successful in drawing out the insider's perspective on policy issues. AMRO's country-level surveillance reports directly record the policy opinions of government officials of member state economies and the *inside-out* perspectives gained from the consultations allow for a similar analytical approach in REOs as well. For instance, in AMRO country-level surveillance reports, a paragraph that records the member government's perspective and response to the recommendation is included after each policy recommendation. Being able to observe the different views of the member states' forecasts and strategies in contrast to that of AMRO's facilitates understanding of the member state's policy trend while also providing objective perspectives on the analysis of both AMRO and the member state. Such practice in AMRO consultations is markedly different from that of the IMF, which mostly notes policy responses at the macro-level and excludes direct policy opinions from the government officials of the member state economies. This is not to say, however, that the quality of IMF surveillance reports falls behind those of AMRO. IMF's vertical approach to surveillance, wider scope, experience and material capacity allow for a higher level of comprehensiveness in collected data and insights. And as we repeatedly note in this article, AMRO's views and policy directions are naturally nested in the IMF due to such reasons. What we contend, is that the apparent outgrowth of AMRO, coming from its different foundational surveillance design, can complement specific gaps left by IMF surveillance. One such gap is found in the bias of the IMF's institutional views, which have been criticized as disproportionately reflecting the views of advanced economies due to its vertical approach to surveillance. Effectively juxtaposing AMRO's insider perspective with IMF surveillance, therefore, can contribute to correcting this bias as the underrepresented perspectives of IMF member states can be better represented.

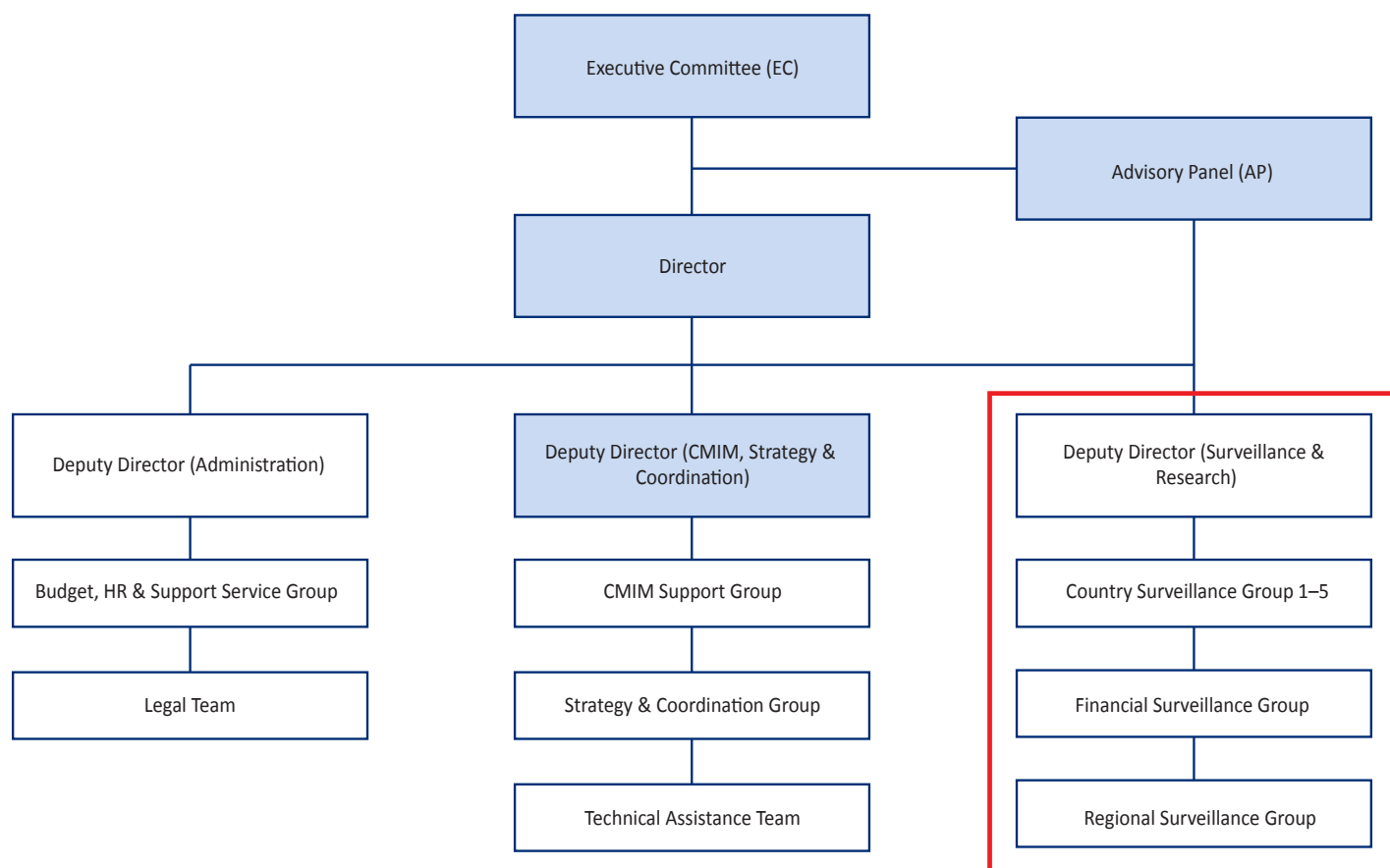
### **Differences in Internal Structural Design**

Another key institutional difference lies in AMRO and the IMF's internal structural design. We find that the structural design of AMRO which integrates financial and economic surveillance functions under a single department not only contributed to the relatively quick development of the institution's surveillance functions but also to promoting its case-based approach to assessing policy issues. Institutional structure is a key factor in determining the efficiency or quality of the results



produced. While the IMF has worked on improving its surveillance capabilities, its fundamental structural issues have consistently led to criticisms that it fails to properly integrate insights from the financial surveillance team into consultation reports (Takagi 2018). As evident from the organizational structure of the IMF, the Area Department and the Financial Special Services Departments are separated. The insights from the bilateral consultations and multilateral analysis required inter-department cooperation to properly incorporate the financial sector insights into the surveillance reports. While such structural inefficiencies have been improved over the years, the IMF has been persistently criticized for its lack of departmental integration (Lombardi and Woods 2008; Moschella 2012; Takagi 2018; Zettelmeyer 2018). To address such shortcomings, AMRO integrates these functions under the department of surveillance and research, as Figure 1 demonstrates. The IMF's institutional build was devised long before the rapid financialization of the global economy, and the IMF had to go through strenuous efforts to properly incorporate the financial surveillance insights into the regional surveillance units. On the other hand, AMRO, as a newer institution, was able to learn from the experiences of the IMF and bypass the troubleshooting phase (AMRO 2018).

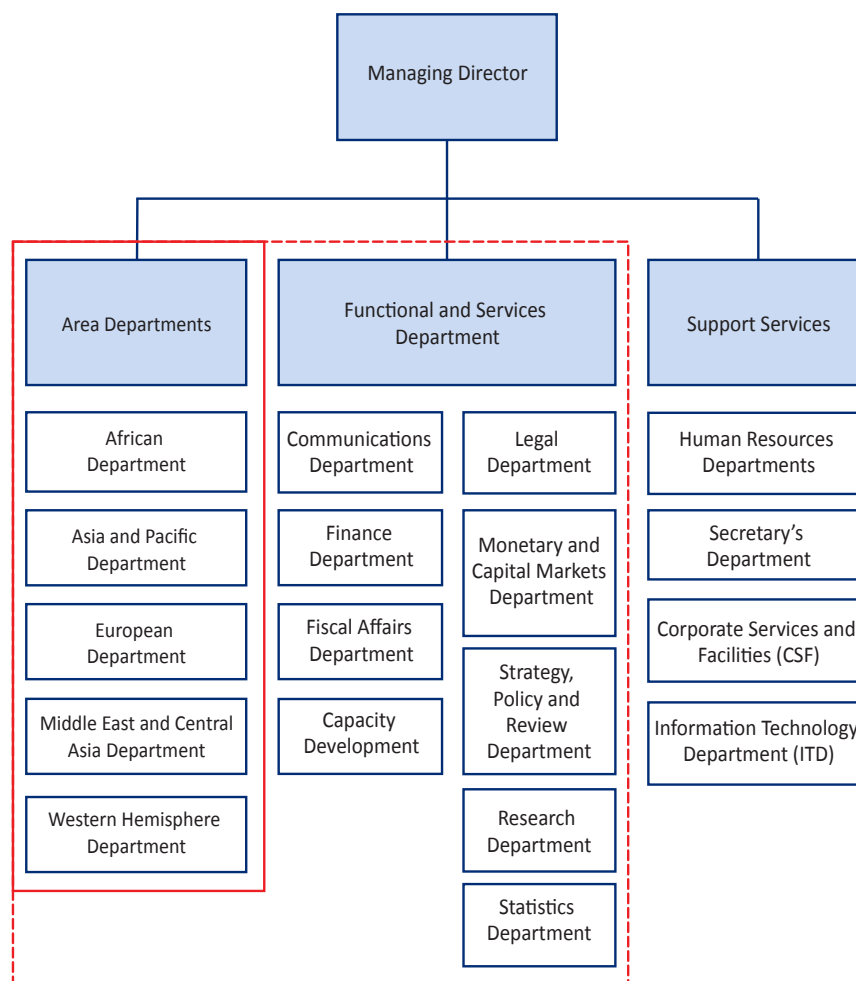
**Figure 1: AMRO's Surveillance Structure**



Source: AMRO, 2018.

As evident in Figures 1 and 2, AMRO has the teams necessary for surveillance under a single department. It groups together financial, regional and country functions, facilitating the incorporation of financial and economic perspectives in conducting surveillance. Such structural integration, as Takagi (2018) argues, can contribute to reducing inefficiencies in communication across departments and facilitate the development of AMRO's surveillance capacities in a relatively short period despite AMRO's apparent limitations in size and experience. The robust and regular production of surveillance outputs of AMRO in recent years demonstrates the positive impact of this structural design.

**Figure 2: IMF's Surveillance Structure (Simplified)**



Source: IMF, 2021c.

Furthermore, we also contend that this structural design contributes to the case-based analytical approach of AMRO. A case-based approach often requires a holistic review of the cases to effectively identify the selected cases' impact on the region or the country. With AMRO having limited material capacity and independent data access, it has chosen to develop comparative advantages in its structural capacity to produce holistic case studies that effectively incorporate both financial and economic perspectives in conducting surveillance activities.

This section reviewed the institutional differences between AMRO and the IMF to identify what led to the identified divergences in their analytical approach to surveillance. We have found that differences in institutional structure and foundational design contribute to such divergences and the development of complementarities. However, given AMRO's structural capacity and its strong points of complementarity coming from its ability to provide an insider's perspectives on policy issues, what explains the continued nesting of AMRO under the IMF, especially in terms of the direction of its policy recommendations? Can AMRO achieve a completed outgrowth from the IMF, or will this outgrowth continue to be nested under the IMF? The following section identifies critical political limitations that hinder AMRO's development into a parallel institution that can "provide contrasting assessments of vulnerabilities within the region when the director and staff disagree with the findings of the IMF" (Henning 2011, p.16) and effectively communicate AMRO's insights and opinions to the IMF surveillance.

## LIMITATIONS TO SUSTAINED OUTGROWTH

A detailed comparative analysis of the surveillance outputs of AMRO and the IMF demonstrates that AMRO surveillance remains nested in the IMF but that there is clear evidence of outgrowth, especially in terms of its analytical approach. However, such nested outgrowth raises questions about AMRO's ability to provide contrasting assessments or policy opinions and develop a sufficient level of capacity to fully take on the surveillance services provided by the IMF in the process of credit disbursement, which is the ultimate purpose of AMRO as a supporting unit of the CMIM. AMRO operates ex-ante surveillance on member states that may in the future wish draw on the CMIM reserve pool. However, since 60 percent of CMIM's disbursable funds are still linked to IMF programs, the two organizations will have to cooperate if a member state ever seeks to draw funds from CMIM. Given that AMRO continues to rely extensively on the IMF for data and policy directions, it would functionally, albeit indirectly nested within the IMF regime even if a member sought to draw only on unlinked funds.

The most visible limitations that hinder AMRO's earnest outgrowth from the IMF into a parallel institution are technical. AMRO is still a young institution and is significantly lacking in terms of experience, size and capacity. Technical limitations coming from such inherent limitations take time to overcome. To account for such shortcomings, AMRO has been proactively expanding its network of information exchange with the IMF and other intentional financial institutions to accelerate its learning process and account for its limited capacities in data collection (Grimes and Kring 2020). Yet, without a significant upscaling of the institution from a more proactive involvement from its member states, it will be difficult for AMRO to develop parallel functions and capabilities to those of the IMF in the long run. In other words, AMRO's developments may remain a nested outgrowth that complements, but cannot suggest contrasting policy opinions to, IMF surveillance.

Why then, are AMRO's member states not proactively stepping up for such an endeavor? Grimes (2015, p.145) argues that the "underlying politics of divided leadership and mutual suspicion" among the ASEAN+3 states hinder proactive commitment. As such, the CMIM and AMRO, its supporting unit are constantly "threatened by the renewed potential for internal divisions," stemming mainly from the rivalry between China and Japan. Under deep mutual mistrust, Grimes (2015) argues, China and Japan are passively avoiding taking further responsibility in upscaling AMRO and advancing the IMF de-linking process as the de-link would signify that AMRO would have to impose ex-post conditionalities, which had stigmatized the IMF during the AFC. Any country that would take the initiative to delink the IMF from CMIM would have to take on the burden. Kring and Grimes (2020, p.7) bolster this argument, purporting that the globalization or earnest embracing of regional norms and standards at the global level can be attributed to the "lack of regional political unity and, more crucially, the divisions of interests both between and within key East Asian economies." This argument is highly relevant to this paper, as we also demonstrate that AMRO surveillance carries complementarities in its unique analytical approach but that it is cautious in contrasting the overall policy directions of the IMF, leading to its nested outgrowth.

Yet, despite the evident limitations in achieving a full outgrowth of AMRO from the IMF, the identified complementarities in AMRO's analytical approach cumulatively enhance the Asia-Pacific's regional surveillance capacity. And based on a detailed comparative institutional analysis of the IMF and AMRO, we find that AMRO's institutional structure and design allow for the development of such complementarities even under limited capacity. Hence, although the political and technical limitations of AMRO make a parallel development of AMRO functions to those of the IMF unlikely soon as Henning (2011) envisioned, AMRO may continue to develop its own points of complementarity with what it has, allowing for a nested outgrowth from the IMF. In this respect, the interplay between the IMF and AMRO is likely to continue in an overall healthy, yet sub-optimal trajectory.



## CONCLUSION

Before the inauguration of AMRO as a formal international institution, Henning (2011) envisioned AMRO to be able to develop parallel functions to those of the IMF, mainly allowing it to provide contrasting assessments on key policy issues, provide space for the regional government officials to voice their perspectives more candidly and to provide a greater sense of regional ownership so that AMRO can meaningfully complement and diversify the regional surveillance landscape, which was nearly the sole purview of the IMF. A detailed comparative analysis of the surveillance outputs of the IMF and AMRO across three dimensions (referencing, policy recommendations and analytical approach) demonstrates that AMRO has achieved limited success in this respect. By directly providing space for regional policymakers to not only respond to the policy recommendations made in the surveillance reports, but also proactively engage in new policy discussions beyond the reports, AMRO serves as a platform for a candid policy discussion. AMRO's case-based and inside-out approach present an in-depth insider's take on key policy issues in the region, complementing the topical and outside-in approach of IMF surveillance. Yet our analysis also finds that AMRO's surveillance functions remain essentially nested in the IMF as its policy recommendation directions and data sourcing rely heavily on those of the IMF. In other words, AMRO allows for a more candid, insider's perspective on policy issues, but the resulting policy recommendations hardly contrast with the IMF, leading to AMRO's nested outgrowth from the IMF.

We then look for what led to such an outgrowth and conduct a comparative institutional analysis to find that differences in institutional features such as AMRO and the IMF's foundational surveillance design and internal structural design allow AMRO to develop points of complementarity despite its relatively limited capacity. Then we focus on the factors that hinder the enhancement of AMRO's capacity and find, based on existing literature (Grimes 2015; Kring and Grimes 2020), that apart from the visible technical limitations, political tensions among AMRO's member states may be limiting the full outgrowth of AMRO from the IMF, continuing to nest AMRO's surveillance functions in the IMF.

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