BU Global Development Policy Center

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Asian Lessons for Monitoring Global Financial Stability

A REPORT FROM THE TASK FORCE ON REGIONAL ECONOMIC SURVEILLANCE

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About the Task Force

The Task Force on Regional Economic Surveillance was created to carry out the first comprehensive study of economic surveillance by the ASEAN+3 Macroeconomic Research Office (AMRO) and to draw lessons from its experiences for other regions. AMRO supports the $240 billion Chiang Mai Initiative Multilateralization (CMIM), the world's second largest regional financial arrangement (RFA). RFAs have become an increasingly important element in the Global Financial Safety Net, providing funding and expertise to ensure regional financial stability. In recent years, RFAs have come to understand that economic surveillance is an essential part of that mission and have begun to set up or expand surveillance units. AMRO is one of the largest and most ambitious of these units, and the Task Force sought to draw key lessons about the design and operation of regional surveillance units for RFAs around the world. Composed of twelve scholars and practitioners from East Asia, North America and Europe, the Task Force engaged directly with AMRO while also drawing on comparisons from other international and regional organizations and applying scholarly insights from political science and economics in its work.

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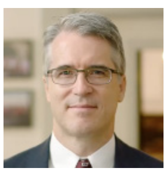

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Abbreviations

ADB	Asian Development Bank
AFC	Asian Financial Crisis
AREO	ASEAN+3 Regional Economic Outlook
AMF	Arab Monetary Fund
AMRO	ASEAN+3 Macroeconomic Research Office
ASEAN+3	Association of Southeast Asian Nations + the People's Republic of China, Japan and the Republic of Korea
BAPA+40	40th Anniversary of the Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation
BOP	Balance of payments
BSA	Bilateral swap agreement
CMI	Chiang Mai Initiative
CMIM	Chiang Mai Initiative Multilateralization
CSR	Comprehensive Surveillance Review
ECB	European Central Bank
EFSD	Eurasian Fund for Stabilization and Development
EMDE	Emerging market and developing economy
ERPD	ASEAN+3 Economic Review and Policy Dialogue
ESM	European Stability Mechanism
ESR	External Sector Report
FDI	Foreign direct investment
Fed	United States Federal Reserve
FLAR	Latin American Reserve Fund
GDP	Gross domestic product
GFC	Global Financial Crisis
GFSN	Global Financial Safety Net
G20	Group of 20
IEO	Independent Evaluation Office
IFI	International financial institution
IMF	International Monetary Fund
IO	International organization
JMOF	Japanese Ministry of Finance
JPY	Japanese yen
KRW	South Korean won
LCSF	Local Currency Settlement Framework
MOU	Memorandum of understanding
NAFA	North American Framework Agreement
PCI	Policy Coordination Instrument
RAM	Risk Assessment Matrix
RFA	Regional financial agreement
RMB	Renminbi
SDRs	Special Drawing Rights
THB	Thai baht
TSR	Triennial Surveillance Review
UNCTAD	United Nations Conference on Trade and Development

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EXECUTIVE SUMMARY

The Global Financial Safety Net (GFSN) has been dramatically reshaped since 2000. While the International Monetary Fund (IMF) is still the world's largest and most capable provider of emergency liquidity, as well as the only one that operates at a global level, it is now flanked by multiple regional financial arrangements (RFAs) whose combined lending capacity equals that of the IMF. RFAs have become indispensable actors in preventing and managing currency crises and balance of payment crises in many regions, either alone or in partnership with the IMF, even though their geographic coverage is incomplete and their resources vary enormously (Mühlich, Fritz and Kring 2021). To effectively manage international financial crises in regions where RFAs operate, it is essential to understand how they operate. RFAs are not just financial firefighters that spring into action when crisis hits. Several of them have established formal or informal economic surveillance units to provide ongoing economic policy advice, to identify potential sources of regional financial instability and to inform emergency liquidity provision in the event of an actual crisis.

While it is difficult to make general statements about the economic approaches and effects of RFAs, in all cases, they concentrate on the interests and preferences of regional economies rather than reflecting the interests of the world's largest economies. Developing independent surveillance functions is also essential to any RFA that is not content to rely on the IMF for surveillance. Without the ability to analyze emergent economic situations or to design rescue packages, RFAs have little option but to operate as adjuncts either to the IMF or, in some cases, to the interests of their own dominant members. Recipients of IMF lending have expressed dissatisfaction with conditionality over the years, which may reflect differing analyses of a given situation. This highlights the need for RFAs to develop their own surveillance capabilities.

In 2011, the ASEAN+3 Macroeconomic Research Office (AMRO) was established to serve as the surveillance arm of the ASEAN+3 countries, and in 2016, it was formally established by treaty as an international organization. Despite AMRO's relatively recent vintage, it is one of the most capable RFA surveillance units. Moreover, since 2017, it has publicly released most of its own surveillance products, allowing better visibility into its practices than any other RFA, and has been ambitious in building cooperation both with the IMF and other RFAs (Kring and Grimes 2019). This report analyzes AMRO's emergence and the benefits of its regional surveillance activities to draw lessons for other RFAs as well as to provide guidance on the trade-offs that RFAs must consider as they build up their surveillance capacity.

There are some common aspects that RFAs can consider when seeking to develop such capabilities. Primary among them is the importance of objective information. If surveillance operations are dictated by the political concerns of either the economies being examined or of dominant RFA members, surveillance will not be able to provide effective warning of potential threats or to provide an effective guide to the size, terms and conditions of emergency lending if it becomes necessary. Another aspect is organizational capacity, as surveillance requires a high level of technical expertise and professionalism. In addition, the need for consistency and objectivity requires the methodology, the personnel and procedures to be standardized. As such, the development of surveillance capabilities can be an important element in the institutionalization of an RFA.

In addition to these broadly applicable aspects, this report identifies five key lessons from this assessment of AMRO's development of surveillance capacity for its member countries:

1. **There are significant benefits for RFAs to develop an independent surveillance function.** As outlined in the report, at a minimum, developing an independent surveillance function promotes the autonomy of RFAs to serve as independent components of the GFSN and fosters capacity building at RFAs. At a maximum, the independent surveillance function of RFAs can provide an alternative viewpoint to the IMF that leverages regional-specific knowledge and expertise.
2. **Cooperation in surveillance offers a low-risk, high reward area for the IMF to engage with RFAs**. However, two key conditions must be met:
   a. Since the IMF and RFAs have different but complementary informational advantages, engagement with the IMF should prioritize collaboration where engagement prioritizes the comparative advantage of RFAs.
   b. Surveillance collaboration efforts between the IMF and RFAs must balance the benefits of exclusive knowledge while safeguarding the autonomy of the RFA's surveillance function.
3. **For most RFAs, the comparative advantage of regional expertise is a potential as opposed to a reality.** An RFA surveillance unit's comparative advantage must be fostered and its capacity developed over time. AMRO provides key lessons on how an RFA can foster and develop regional surveillance capacity while piloting surveillance, building capacity and constructing networks.
4. **RFAs should strive to complement the work of other surveillance bodies by developing different surveillance focus areas or methods.** While RFAs may come to different determinations than other multilateral surveillance bodies, this should not be the objective. Rather, they should strive to add value through alternative methodologies, data, frameworks and focus areas.
5. **Emerging issues in the areas of health, climate shocks and international conflict require unique and diverse expertise, and that should be a key focus area of capacity development at RFAs.** RFAs should invest resources into developing surveillance capacity in these emerging issue areas to ensure the ability to identify emerging risks and foster resilience in member countries.

Beyond these key lessons, many decisions about surveillance design involve a series of overlapping, key trade-offs. AMRO's experience demonstrates one effective approach to managing these trade-offs. Other RFAs may weigh values differently and therefore decide to make different choices.

KEY TRADE-OFFS FOR RFA SURVEILLANCE

1. *External credibility versus complete information.* AMRO has chosen to build credibility with outside actors by making all of its surveillance reports public. While this creates the potential to embarrass a member state through a critical country report, it demonstrates consistency and transparency to markets and to partners such as the IMF. However, the knowledge that information will be made public may make members less likely to be completely open with the surveillance team.
2. *Complementarity versus substitution.* AMRO has chosen to follow similar standards and methodologies to those of the IMF rather than to create alternatives that reflect particular regional values. AMRO surveillance largely overlaps with that of the IMF, with some complementary differentiation, such as tendencies to focus on a shorter time horizon and on regional trends over country-specific issues. While analyses are not identical, the use of common data, assumptions and methodologies means that any differences can be productively debated.
3. *Autonomy versus collaboration.* Establishing and maintaining effective surveillance units is costly for RFAs, so they will generally seek to develop their own capabilities and comparative advantages relative to other surveillance units such as the IMF or multilateral development banks. However, there are significant benefits to be gained from cooperating with other surveillance units in terms of data and expertise. From its inception, AMRO chose to prioritize engagement with the IMF. As a treaty-based international organization, it was able to conclude information-sharing agreements with the IMF, the Asian Development Bank (ADB) and other RFAs as a means of improving its capabilities. It has also worked to develop cooperation with the IMF on crisis management, including program design (size and conditionality) and implementation. In the event of a currency crisis, this collaborative relationship will improve its ability to act as a partner to the IMF rather than as a subordinate.
4. *Advice versus enforcement.* AMRO surveillance primarily seeks to be consultative and advisory to member governments when there are concerns about economic conditions or policies rather than threatening strict conditionality to persuade them to shift policies. This may reflect a sense of regional solidarity. It is also likely that the fact that the Chiang Mai Initiative Multilateralization has never been triggered leads to reduced concerns about moral hazard. While most surveillance products are made public via AMRO's website and mailing list, AMRO's early warning matrix is kept confidential in order to avoid speculative attacks by market participants. Also, in-person discussions offer a venue for policy advice.
5. *Standardization versus flexibility*. Surveillance can benefit from the standardization of models, data and issues across country reports. The IMF has invested considerable resources to develop common procedures and an "institutional view" of key policy measures (e.g., capital flow measures) to ensure that country reports are comparable with each other and over time. While it does adapt procedures and models over time, such changes are developed through a standard process. At the same time, flexibility can also be a virtue. The ability to identify and incorporate new challenges, such as the COVID-19 pandemic or climate change, into surveillance products can provide very useful information for economies facing changed circumstances. AMRO has sought to balance standardization in country reports and flexibility in regional and thematic reports, making it a nimbler advisor to its member countries. Over time, however, new challenges become established facts, requiring RFAs to develop the expertise to incorporate nontraditional issues into their standard analytical models.

INTRODUCTION

PROSPECTS FOR MACROECONOMIC SURVEILLANCE IN EAST ASIA?

WILLIAM N. KRING[1] AND WILLIAM W. GRIMES[2]

When the Asian Financial Crisis (AFC) struck in 1997, East Asia was woefully unprepared. Foreign exchange reserves in most countries were insufficient to ward off speculative attacks, the International Monetary Fund (IMF) could not commit large enough funding to stabilize currencies and imposed often counterproductive conditions, and no regional arrangements were in place to help manage the crisis. In the aftermath, the ASEAN+3 nations, led by Japan, created the Chiang Mai Initiative (CMI) as a regional financial safety net to ensure that East Asia would be able to prevent—or at least better manage—future crises. Now renamed the Chiang Mai Initiative Multilateralization (CMIM), it is the second largest and arguably most ambitious regional financial agreement (RFA) in the world. As such, the CMIM has become a model to which other regions turn as they seek to create or expand their own RFAs as a means of ensuring financial stability.

The CMIM has several distinctive institutional characteristics, including its reliance on bilateral lending, its voting system and its "IMF link." Formally, the CMIM is a reserve pooling arrangement based on the self-management of reserves. In other words, instead of keeping a shared reserve fund like the Latin American Reserve Fund (FLAR), CMIM member countries commit a specific amount of their official foreign exchange reserves to use in case the CMIM needs to provide financial assistance to them. As formalized in the CMIM Agreement, each country has a "maximum arrangement amount" that is calculated as a multiple of its committed funds (0.5 for Japan and China, 1.0 for South Korea and 2.5 or 5.0 for ASEAN members).[3] China, Japan and South Korea together account for 80 percent of the total financial commitment.

The CMIM is invoked by a two-thirds vote, with each country's vote reflecting a combination of its financial commitment and a "basic vote" that is allocated equally among all members. If a lending plan is approved, each individual member is expected to transfer funds to the target member by activating a bilateral swap. In most cases, it is expected that these will be executed as dollar swaps through members' accounts at the New York Federal Reserve, but in 2021 the ASEAN+3 finance ministers agreed that members could request local currency swaps if they preferred. Importantly, the IMF link limits a country's borrowing through the CMIM mechanism to 40 percent of their maximum limit unless they are doing so in conjunction with an IMF lending program. Given the amounts involved, it is anticipated that any use of the CMIM will in fact be made in partnership with the IMF rather than autonomously.

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[3] The CMIM Agreement and subsequent amendments can be found at https://www.amro-asia.org/about-amro/amro-and-the-cmim/.

While the CMIM has not been tested by a regional crisis, it has evolved significantly over the last two decades from a network of non-standardized, bilateral swap arrangements (BSAs) without a central decision-making mechanism to a multilateralized, regional reserve pooling arrangement totaling $240 billion in swap arrangements. Among other major changes over time, the IMF link has been increased from 10 percent in the original CMI agreement in 2000 to 40 percent as of 2021, a precautionary line was established in addition to the original stability facility in 2014, the option of borrowing in local currency rather than dollars was approved in 2021, and the legal and operational bases for lending operations have been clarified. Crucially, in 2009, the ASEAN+3 countries also agreed to create an institution to conduct regional macroeconomic and financial policy surveillance to support the CMIM, and in 2011, AMRO (ASEAN+3 Macroeconomic Research Office) was established for that purpose. Building on its function as a surveillance agency, AMRO is responsible for designing CMIM lending, including amounts and conditionality, and for coordinating implementation with the IMF. It also functions as the administrative secretariat for the ASEAN+3 finance ministers and the CMIM.

The diversification of liquidity resources away from the IMF has not been limited to the CMIM. RFAs—institutions or agreements through which countries mutually establish pooled resources or pledged funds via swaps for the provision of liquidity in instances of financial difficulties—have grown exponentially over the past decade. This has profoundly altered the contours of the GFSN, which had previously been dominated by the IMF.[4] By the IMF's own admission, RFAs have surpassed the Fund in terms of resources (IMF 2017). They have a combined lending capacity of approximately $917 billion, which roughly equals the IMF's lending capacity at approximately $1 trillion. While the European Stability Mechanism (ESM) is by far the largest RFA from purely the standpoint of lending capacity (€500 billion, or about $525 billion), even if one removes the ESM from the calculations of RFA resources, the remaining RFA lending capacity totals approximately $354 billion, more than 50 percent of the IMF's permanent, core lending capacity of 477 billion Special Drawing Rights (SDR).

Recognition of the increasing importance of RFAs led the IMF's Independent Evaluation Office (IEO) to critique the IMF for its slowness in developing mutually "agreed cooperation principles adapted to the circumstances of each [RFA]" (IMF 2016, p. 42) as requested by the International Monetary and Financial Committee and the Group of 20 (G20). The IEO recommended that the "IMF should establish a policy on cooperation with regional financing arrangements" (IEO 2016, p. 41). Key to the IEO's suggestion was for RFAs to "develop principles tailored to each RFA" (p. 42). While the IMF has demonstrated a concerted effort to engage with RFAs more substantively over the period of this report, it has fallen short of identifying and adopting mutually agreed collaboration principles to facilitate constructive and substantive engagements of RFAs and the IMF. This has raised doubts about the ability of the IMF and RFAs to cooperate rapidly and effectively in the event of a liquidity crisis, making it essential that RFAs develop their own capacity to monitor economic conditions and design liquidity measures in their regions.

This report argues that one of the greatest challenges that RFAs face is the establishment of robust surveillance mechanisms to spot economic vulnerabilities in order to prevent and mitigate potential financial crises. In particular, developing the specialized technical capacity and expertise is costly, and establishing credibility with stakeholders and outsiders takes considerable time. That said, this report argues that surveillance offers a low-risk, high reward area for IMF engagement due to two reasons. First, while RFAs must maintain their independent assessment roles, the IMF and RFAs have different but complementary informational advantages. Thus, the IMF should seek to engage with RFAs to institutionalize information and data sharing to the extent that is allowed by the respective mandates of the institutions. Information sharing and transparency will, at a minimum, enhance mutual trust and potentially improve surveillance outcomes.

[4] See the Global Financial Safety Net Tracker (https://gfsntracker.com/) maintained by the Boston University GDP Center.

Second, the IMF has called for surveillance collaboration efforts that balance the "benefits (through the exchange of views, knowledge and analysis on regional countries) with the *independence* of the surveillance messages of the separate institutions" (IMF 2017). Even differing interpretations of common data can raise the likelihood that vulnerabilities are detected before they become crises while also sparking productive discussions that may improve policy recommendations. Thus, the IMF and RFAs should substantively engage on both specific surveillance efforts and capacity development since surveillance offers the prospects of a low risk and high reward.

TASK FORCE REPORT METHODOLOGY

This Task Force report conducts an in-depth analysis of AMRO, the most developed regional surveillance body, as part of an effort to draw lessons for RFAs that are either developing surveillance activities or enhancing existing surveillance capacities. To assess the institutional design and development of RFA surveillance, we develop a framework that draws on key themes identified in workshops and interviews with IMF staff, ministries of finance and RFA staff and leadership. These interviews revealed that the variation in the design, modification and operation of RFAs is driven by various tensions: transparency versus accountability, technical expertise versus regional-specific expertise and selective versus broad/inclusive membership. These tensions create a trilemma of sorts for RFAs between *stakeholder* credibility, *external* credibility and *capacity*.

Our framework for analyzing RFA surveillance focuses on RFAs' key intermediate objectives of capacity building, autonomy, credibility and accountability. While all these objectives are of potential importance in carrying out effective surveillance, we find that in practice RFAs must design their surveillance programs in ways that reflect trade-offs in values. In particular, we focus on the inherent tension between internal and external credibility and accountability.

KEY CONCEPTS AND DEFINITIONS

Economic surveillance. Economic surveillance by emergency liquidity providers is typically used for two purposes: to provide prior warning of potential threats to members' ability to cover their international payments obligations and to design effective lending programs in the event that a member runs into difficulties in meeting those obligations. Prior warning is of particular importance as it can help member states to avoid payments crises by modifying their policies while also sparing other members the risks of financial instability, payments disruptions and contagion. Economic surveillance can encompass a variety of perspectives, from policy choices (fiscal and monetary policy, macro and microprudential supervision of financial institutions) to regional and global trends (e.g., terms of trade, trade patterns and technological shifts such as digitization).

Capacity. Capacity of surveillance units can be defined as the competence, knowledge, resources and experience to conduct surveillance activities in accordance with the institution's governing rules, norms and practices. RFAs must have the competence and knowledge to conduct surveillance activities. They must also have the cooperation of member countries to conduct surveillance operations, on-the-ground data gathering and data sharing. Further, RFAs must have the experience and contacts in member countries to effectively conduct surveillance operations. Surveillance units must decide how to conduct their affairs with limited resources, in terms of both budgets and time. Budgets are determined by member states, with funding models that range from annual allocations by members (as in the case of AMRO) to returns on capital and operations (as in the case of the IMF). The organization's capacity is ultimately determined by the quantity and quality of its personnel, its access to accurate information and the analytical models it uses or develops.

Autonomy. Autonomy is the surveillance unit's ability to carry out its mission without the threat of intervention or disruption of funding by particular member states. Although always limited to some degree in practice by the needs of accountability, autonomy contributes to the ability of an organization to objectively measure and analyze member states' economic policies and potential hazards.

Credibility. Credibility is the extent to which the surveillance unit's analysis is believed to be competent and objective and therefore useful. Crucially, credibility is judged by multiple audiences, each of which may use the analysis differently. One important audience is member states that are the subject of surveillance, whose willingness to modify policies in response to surveillance will depend heavily on the extent to which they see the analysis as accurate and tailored to their circumstances. A second audience is other member states, which are obligated to bail out fellow members if a crisis occurs. Together, they comprise *stakeholder credibility.* A third audience is financial markets, which may use surveillance products as a guide to allocate loans and investments among economies. This relates to *external credibility.*

Accountability. As membership-based organizations, RFAs and the IMF are accountable to their members. The organizational structures of funding and voting determine whether surveillance units are equally accountable to all members (e.g., FLAR's model) or primarily to a smaller number of members that provide a preponderance of funding (e.g., the IMF's model). In addition to this *internal* accountability, surveillance units may also face *external* accountability when they enter into cooperative agreements or coordinate actions. For example, an RFA that co-finances a liquidity operation—or even one that just shares information—with the IMF will be accountable to the Fund in such instances. Accountability is ultimately enforced through provision or withholding of resources. For example, the principle of internal accountability means that the organization's governing council can change budgets, procedures and personnel based on whether it assesses surveillance to be successful or unsuccessful.

Stakeholder credibility. Stakeholder credibility is the accountability of an RFA to the collective best interest of the shareholders and institutional mission/best practices. RFAs are accountable to their shareholders (represented by the board of directors) and to their own mission. Generally, an RFA can be considered to be accountable to its shareholders when it carries out its mission in accordance with established policies and procedures under the stewardship of RFAs. However, such accountability can be undermined by creditor versus debtor dynamics. When an RFA has internal credibility, it means that it can candidly communicate and critique member countries *and be taken seriously by them*.

External credibility. External credibility is the extent to which an RFA is viewed as a trustworthy, expert source on macroeconomic surveillance by actors external to the RFA and its member countries, such as other international financial institutions (IFIs), nonmember countries and private sector or nongovernmental actors. RFA external credibility is determined by i) institutional capacity, ii) RFA adherence to standards and norms of practice, iii) the autonomy of the surveillance function and iv) institutionalized RFA relationships.

CHARACTERISTICS OF AMRO SURVEILLANCE

There has been little empirical research on AMRO surveillance to date, and this chapter seeks to remedy the lack of description and analysis by summarizing what is known at this time. We summarize the key characteristics of AMRO surveillance and present evidence as to how it compares with IMF surveillance, based on documents available on the AMRO website, interviews with current and former AMRO staff, chapters in this collection (including, inter alia, Nemoto, Ng, Edwards and Henning) and the small number of empirical studies to date.

Publicly availably reports include country reports, regional reports, thematic reports and other research, but we focus on AMRO's surveillance products, which fall into three categories: ASEAN+3 Regional Economic Outlook (AREO) reports, country reports and the early warning matrix. While the early warning matrix is a closely held internal surveillance product, AREO and country reports are posted to AMRO's website, briefed to the press and distributed widely via email and social media. The full AREO report is issued annually, with shorter updates focusing on key macroeconomic indicators such as gross domestic product (GDP) and exports issued quarterly. AREO and country reports are fairly comprehensive, seeking to identify key economic trends affecting regional economies as well as any policies or phenomena that could spark financial or currency crises.

Surveillance is carried out by AMRO economists, combining country teams with functional teams. Country teams are led by economists from other member countries to avoid conflicts of interest, and all surveillance teams are composed of economists from multiple countries. All reports are reviewed and approved by AMRO's chief economist before publication. In addition to publication, surveillance teams present their findings to host governments and offer them confidential advice.

To date, there have been very few empirical analyses of AMRO surveillance products. In this section, we present the results of the three studies of which we are aware. All of them focus on AMRO country reports rather than regional or thematic reports, and all of them compare AMRO reports to IMF country reports.

The earliest, published by Grimes and Kring (2020), is a study of AMRO's institutionalization and autonomy. Among the evidence it considers in evaluating AMRO capacity building is the first two years of published country reports, making it a preliminary analysis. The study finds that AMRO reports overlap considerably with IMF reports, with the main difference being that an AMRO report "focuses more on issues that are relevant at the macroprudential level than the IMF Article IV report, which focuses more on less emergent issues" (Grimes and Kring 2020).

In a follow-up paper, Lee, Kring and Grimes (2023) present a qualitative comparison of all the published AMRO annual country and regional surveillance products from the period of 2016-20 (38 country reports and 3 AREO reports) with the equivalent IMF reports, for a total of 82 reports. It compares the reports across the dimensions of "referencing" (data sources), policy recommendations (trade liberalization, capital flow management and fiscal policy) and analytical approach.

Like the previous report, the paper finds considerable overlap between AMRO and IMF reports. Most strikingly, the policy recommendations tracked each other closely, but there were some subtle distinctions between both reports. One was that AMRO reports tended to cite IMF data and reports extensively, while IMF reports on ASEAN+3 economies did not refer to AMRO surveillance at all. While this is perhaps not surprising given the newness of AMRO as a surveillance unit and the long-established and authoritative nature of IMF Article IV reports, the authors suggest that AMRO is consciously borrowing credibility from the IMF as it builds its own capabilities, a process they call "nested outgrowth." Also, they note that AMRO reports typically take an "inside-out" perspective, viewing countries' economic situations and challenges from local policymakers' point of view. In contrast, IMF reports are more "outside-in," applying standardized models and focusing on impacts on the global system. AMRO's inside-out perspective may reflect its assigned role as an economic advisor to ASEAN+3 members, whereas the IMF has traditionally seen its role as maintaining the stability of the global financial system.

Finally, a paper published by Matsuo, Suzuki and Uji (2023) compares AMRO and IMF country reports for the 2016-19 period using a dictionary-based quantitative textual analysis. It examines whether systematic differences exist between AMRO and IMF analyses and whether any such differences can be attributed to differing developmental models. It constructs dictionaries of characteristic terms for three models, which the authors label the "consensus" model, the "adaptive state" model and the "developmental state" model, in which the consensus model represents the IMF institutional view that is applied globally, whereas the adaptive state and developmental state models represent East Asian regional approaches to economic policy (Matsuo, Suzuki and Uji 2023).

The paper offers two major empirical findings. First, both IMF and AMRO surveillance reports primarily reflect what the authors call the consensus model (which highly values market allocation and limited government), with much less reference to East Asia-specific developmental or adaptive state models (both of which allow for more state intervention in internal and external markets). In other words, the IMF and AMRO are carrying out surveillance on the basis of a common model.

Second, they find some differences in frequency of particular terms and themes in the reports. They find that IMF reports are more likely to emphasize the importance of structural reforms, while AMRO reports tend to focus more on reducing public and private debt. Both empirical analyses and first-hand accounts of current and former AMRO officials suggest there is considerable overlap between the approaches and conclusions of AMRO and IMF surveillance reports. While there may often be differences in emphasis or topical coverage, they are subtle.

Some caution is warranted in interpreting these results. The empirical studies are confined to a relatively short time, which constitutes the earliest years of AMRO's published surveillance reports. It is possible that AMRO and IMF surveillance models and practices will diverge over time. Also, the empirical studies focused on a period in which regional economies and the global economic situation were relatively stable. In contrast, the period since 2020 has been remarkably filled with economic and political shocks, from the COVID-19 pandemic to the intensifying debate over "friend-shoring, "U.S.-China decoupling and the supply shocks and sanctions resulting from Russia's war in Ukraine. Even with similar analytical models, AMRO and IMF analyses and recommendations may wind up differing considerably in the face of economic uncertainty if they assign different risk weights and impacts to economic events.

To date, however, all indications are that AMRO surveillance is complementary to that of the IMF rather than contradictory or seeking to offer an alternative. In this sense, AMRO and IMF surveillance reinforce each other and strengthen the impact of their recommendations to ASEAN+3 governments. Subtle differences in perspective and interpretation offer opportunities for productive discussion between surveillance agencies and with policymakers.

LESSONS FROM AMRO SURVEILLANCE

AMRO offers an ideal case study for observing the ways in which an RFA makes decisions about how to build institutional capacity, internal accountability and external credibility (Grimes 2009; Grimes and Kring 2020). As Yoichi Nemoto's chapter in this report describes, since its establishment in 2011, AMRO has worked to build capacity while considering the trade-offs between internal accountability and external credibility. Observing the ways in which AMRO has expanded its surveillance practices and products to meet the perceived needs of CMIM members offers insights into the ways in which RFAs can contribute to financial stability through surveillance.

When the original CMI was established in 2000 as a network of BSAs, it included only minimal provisions for surveillance through the mechanism of the ASEAN+3 Economic Review and Policy Dialogue (ERPD), which consisted of semiannual, closed-door discussions among ASEAN+3 finance ministers and deputy ministers. Many CMI members resisted the notion of "surveillance" because of its association with the IMF and the punitive conditionalities of rescue packages in the AFC. Until the establishment of AMRO in 2011, ERPD was the only formal mechanism for economic monitoring, although ministerial discussions had been augmented starting in 2005 with briefings by the IMF and Asian Development Bank (ADB) leaders.

Arguably, the CMI did not really require an autonomous surveillance capability in its early years since the available funds were quite limited and heavily subject to the IMF link, which ensured that the bulk of the committed funds (first 90 percent and then 80 percent) could not be drawn unless in cooperation with the IMF. In other words, the CMI delegated surveillance responsibilities to the IMF, which proved to be an inexpensive way of getting access to high-quality surveillance at a time when the CMI was designed to be a supplement to IMF funding. With the multilateralization of the CMI funding mechanism, doubling of committed funds and further reduction of the IMF link in 2010, however, CMIM members also agreed that it would be essential to have a dedicated surveillance unit, leading to the birth of AMRO a year later.

Leaving aside debates over the long-term relationship between the CMIM and the IMF, and therefore whether AMRO surveillance would be a substitute or a complement to IMF surveillance (Kring and Grimes 2019), AMRO has developed its surveillance capacity in a methodical way that seeks to make sensible compromises among the various values of its members.

CAPABILITY AND AUTONOMY

The usefulness of any RFA surveillance body is linked inextricably to its performance, which in turn depends on its capabilities, procedures and relationships with external actors. AMRO and its member states have taken a variety of steps to improve the organization's capabilities and autonomy. As Nemoto describes in his chapter, one of these was to establish it as a formal international organization through a treaty among member states. This has established norms of transparency and governance that are meant to reduce direct interference in its operations, particularly in terms of surveillance. Moreover, the publication of surveillance reports only bolsters the external credibility of a surveillance agency if the reports are of high quality and consistency. AMRO developed its surveillance procedures and methodologies for several years before beginning to make them publicly available—as one former AMRO official put it, quality must be a prerequisite to publication.

Despite relying on financial support from member states, AMRO's budget has increased considerably, from under $18.9 million in 2016 (its first publicly available annual report) to $27.8 million in 2021 (its most recent annual report), the bulk of which ($12.8 million in 2016, $21.8 million in 2021) is devoted to personnel. AMRO has substantially expanded its personnel, drawing on experienced economists who have worked in international organizations such as the IMF and the ADB, governments and central banks. In principle, most AMRO officials (and all high-ranking officials) have left their previous jobs for full-time employment at AMRO and are formally no longer affiliated with the official agencies at which they formerly worked. While there are a small number of seconded officials from developing economy members, country reports are always directed by nonnationals. They also follow standardized methodologies and procedural norms of peer review. All these practices are meant to reduce the potential impact of political pressure on surveillance staff.

AMRO has also worked hard to develop a more equal relationship with the IMF. To the surprise of some observers, it has not chosen the route of substitution (although, as Kring and Grimes 2019 demonstrate, it has the potential to go in that direction in the future if CMIM members decide to do so). Rather, it has followed a mixed strategy of complementarity and duplication, attempting to develop a comparative advantage and to be able to partner on a relatively equal level with the IMF. In terms of complementarity, three points stand out. First, AMRO's country reports take a more short-term perspective than the IMF, focusing on factors that could lead to crises than on structural concerns (Lee, Grimes and Kring 2022). Second, as Matsuo, Suzuki and Uji (2023) demonstrate through a dictionary-based comparative text analysis, AMRO regional reports are somewhat more likely to use a "developmental state model" than those of the IMF, although they overlap heavily. Third, AMRO has worked to develop other surveillance products, including regional and thematic reports. These reports seek to address larger trends that are expected to affect multiple regional economies. At the same time, duplication remains a large part of AMRO's country reports as it shares data and many assumptions with the IMF. Both complementarity and duplication raise AMRO's influence on IMF surveillance of ASEAN+3 economies. Thus, although AMRO and the IMF remain tightly intertwined in terms of surveillance (and, to a lesser extent, contingency planning), the balance of power has shifted over time.

In other words, the two organizations are both partners and rivals. As partners, cooperation with the IMF has contributed to AMRO's internal capacity building. Duplication has created the potential for productive redundancy, while complementarity and the partial division of labor increase interdependence between the two. But there remains potential for greater rivalry, based on partially divergent data sources, models and economic advice. Meanwhile, the internal capacity building that makes AMRO a valuable partner for the IMF also leaves open the potential for functional autonomy (i.e., substitution).

INTERNAL CREDIBILITY

Dealing with principals (i.e., member states) presents AMRO with perhaps the most challenging set of relationships. It must balance its organizational need for functional autonomy with the credibility of member states, which it has done by drawing a distinction between macro-level credibility and responsiveness to intervention by member states. This means that AMRO is obligated to pursue the goals and develop the capacities as set by member states. Some surveillance products have even been developed at the request of member states, including the development and expansion of thematic reports. In addition, AMRO must demonstrate its compliance through operational transparency and third-party audits. Additional oversight is ensured through the ERPD process, in which AMRO officials report on regional issues and are questioned extensively by government officials. Meanwhile, standard operating procedures and peer review serve to reduce opportunities for member states to exert influence behind the scenes.

So far, surveillance reports and interviews suggest that AMRO has been successful in maintaining credibility with its shareholders while providing increasingly candid and comprehensive surveillance. AMRO's ability to do so over the long term is not assured, however. To date, it has not had to raise any alarms about member states' economic management, which reduces the risk of pushback. Instead, the financial stability risks that have been highlighted in AMRO reports are mostly regional or global in nature (e.g., the COVID-19 pandemic) rather than the result of economic mismanagement that ought to be corrected. This relatively benign situation could change, however, depending on member states' policies and the impact of global and regional forces. It is likely to be particularly difficult to criticize the policies of the region's largest economic powers, China and Japan. If AMRO's treatment of China were to pull punches, it could damage the market credibility that AMRO has tried so hard to establish. As of now, however, this does not appear to be the case—for example, the 2020 annual consultation with China highlights, at multiple points, the dangers of debt-driven real estate investment.

Although most of AMRO's surveillance activities are made public, some are not. For example, country surveillance teams conduct confidential briefings at the conclusion of each year's surveillance. While AMRO surveillance has the potential to inform conditionality and enforcement of lending programs, this practice speaks to the principle that AMRO should provide useful advice and contribute to capacity building in its emerging economy members. In addition, AMRO maintains an early warning matrix that is shared only with CMIM members. (The rationale is that making it public has the potential to spark speculative attacks on currencies). According to interviews, the matrix is focused on the likelihood of very near-term crises and is meant to trigger confidential advice to pursue urgent policy measures. Thus, although AMRO has chosen to ensure its external credibility and autonomy by publishing most of its surveillance products, it balances that principal with a commitment to confidential policy advice.

SUBSTITUTION AND COMPLEMENTARITY

As several of the chapters in this report make clear, one of the biggest practical questions for any RFA instituting a surveillance program is how that program should relate to the IMF's existing surveillance program. IMF surveillance builds on a long history, clear methodology and high level of capacity in terms of resources and expertise. It also links to the IMF's capacity to design lending programs, whether structural or precautionary in nature. Despite its impressive surveillance capacity, however, IMF surveillance remains controversial. Like IMF conditionality, its practices and products have been widely criticized in the Global South as representing a narrow, neoliberal economic analysis that values liberalization and nonintervention into markets over emerging economies' political and developmental policy preferences. It has been argued that RFA surveillance offers an opportunity to push back against the IMF's economic policy assumptions by designing surveillance that fits the specific needs and preferences of regional economies. This raises the question of whether RFA surveillance should offer an alternative (or substitute) to IMF surveillance or a complement.

As noted, AMRO has to date followed the path of complementarity. Comparisons of IMF and AMRO country reports find significant overlap in terms of coverage and analysis. Interviews with current and former officials make clear that AMRO sees overlap as constructive rather than just duplicative. Agreement between AMRO and IMF analyses strengthens the confidence of member governments in them, while disagreements can lead to productive discussions and ultimately better analysis. They argue that such overlaps therefore build confidence in both AMRO and IMF surveillance products. One former AMRO official drew an analogy to the multiplicity of credit rating agencies evaluating corporate and sovereign borrowers. The official noted that credit rating agencies tracking the same data may come to differing conclusions, but investors find the heterogeneity useful to avoid blind spots and groupthink. Similarly, having multiple sources of analysis including the IMF, AMRO, other international organizations, credit rating agencies and internal agencies can increase the confidence of governments that they are not missing important danger signs.

In addition, there is some functional differentiation. For example, AMRO country reports typically focus more on short- to medium-term financial stability threats, while the IMF often emphasizes longer-term structural factors more strongly. Also, AMRO has highlighted regional economic trends, including the impact of emergent issues such as the COVID-19 pandemic and global inflation and monetary policy.

AMRO's complementary approach to surveillance appears to have served the region well. It has strengthened confidence in its analyses and allowed it to focus on issues of importance to member governments that may not be adequately addressed in annual IMF surveillance. It has also contributed to capacity building, which is an important institutional priority for such a new organization. As such, it also improves AMRO's ability to modify its aims and approach over time if its members so choose.

POLICY-RELEVANT FINDINGS FROM OUR ANALYSIS OF AMRO

Based on the key trade-offs that AMRO must make as an emerging surveillance institution in East Asia and the associated lessons about institutional design and operation, AMRO's experience and the authors' contributions in the report that follows highlight five key lessons about surveillance functions performed by RFAs.

First, there are significant benefits to developing an independent surveillance function. As outlined in the report, there are significant benefits for RFAs that develop the capacity to perform an independent surveillance function. At a minimum, developing surveillance capacity at an RFA promotes the autonomy of the RFA to serve as an independent component of the GFSN and fosters capacity building across the institution. But RFAs with an independent surveillance function can also stand to provide an alternative viewpoint to the IMF that leverages the regional-specific knowledge and expertise of the RFAs teams. Through this capacity, RFAs develop the potential to advocate for their member countries should their surveillance findings significantly diverge from the IMF.

Second, cooperation in the area of surveillance offers a low-risk, high reward area for the IMF to engage with RFAs. However, two key conditions must be met:

a. Since the IMF and RFAs have different but complementary informational advantages, engagement with the IMF should prioritize collaboration where engagement prioritizes the comparative advantage of RFAs.
b. Surveillance collaboration efforts between the IMF and RFAs must balance the benefits of exclusive knowledge while safeguarding the autonomy of the RFA's surveillance function.

The IMF's IEO strongly criticized the delayed nature of the IMF's move to engage with RFAs despite pleas from the G20 to engage (IMF 2017). While the IMF has begun to engage more substantively with RFAs, this engagement remains limited. Surveillance offers a key opportunity to increase lines of communication between the anchor of the GFSN, the IMF and another crucial component of the institutional landscape, RFAs.

Third, the comparative advantage of regional expertise represents a potential for most RFAs as opposed to a reality. While the regional-specific expertise of an RFA's staff naturally follows from the hiring of local experts, this does not immediately translate into a superior surveillance capacity at the RFA. Rather, an RFA surveillance unit's comparative advantage must be fostered and its capacity developed over time. AMRO provides key lessons on how an RFA can foster and develop regional surveillance capacity while piloting surveillance, building capacity and constructing networks.

Fourth, RFAs should strive to complement the work of other surveillance bodies by developing different surveillance focus areas or methods. While RFAs may come to different determinations than other multilateral surveillance bodies, this should not be the objective. Rather, the RFAs should strive to add value through alternative methodologies, data, frameworks and focus areas.

Finally, emerging issues in the areas of health, climate shocks and international conflict require unique and diverse expertise, and that should be a key focus area of capacity development at RFAs. RFAs should invest resources into developing surveillance capacity in these emerging issue areas to ensure the ability to identify emerging risks and foster resilience in member countries.

ORGANIZATION OF THE REPORT

The chapters that follow combine the insights of scholars and practitioners both within and outside of East Asia. They provide additional backing and context for the report, taking on issues of principle and practice through theoretical, experiential and comparative lenses.

In "Introduction: Prospects for Macroeconomic Surveillance in East Asia?," William N. Kring and William W. Grimes (Boston University) summarize AMRO's surveillance activities and present empirical evidence regarding its coverage. It focuses on comparisons between IMF and AMRO country surveillance reports and demonstrates the significant overlaps between coverage and analysis of the two agencies' reports.

In "The Promise and Peril of Multilevel Surveillance in East Asia," Motoshi Suzuki (Kyoto University) provides a theoretical analysis of the trade-offs facing RFAs as they develop surveillance functions. The emergence of regional macroeconomic and financial surveillance within an existing system of global surveillance centered on the IMF raises a fundamental choice as to whether RFAs should aspire to complement or substitute IMF surveillance. As the chapter makes clear, such a choice speaks to not only the utility of the surveillance but also organizational ambition and capability. A second fundamental trade-off is between trust and enforcement. As Suzuki writes, an RFA is likely to be able to access more accurate information and engage in more candid policy discussions with member governments if confidentiality is ensured; however, this would prevent the RFA from pressuring members against pursuing potentially dangerous policies that could increase the likelihood of a bailout or liquidity operation.

As AMRO's second director, Yoichi Nemoto (Hitotsubashi University) confronted exactly those trade-offs as he led AMRO's transformation from a limited liability company into an official international organization. In "Lessons from Setting Up a Surveillance Unit for an RFA," Nemoto discusses the process of creating both a formal charter that gained the support of all its members and the internal institutional structure and procedures needed to implement objective and useful surveillance. He emphasizes the importance of building trust and openness among principals as well as defining clear lines of accountability and communication not only among members but also with outside actors including the IMF and other RFAs such as the FLAR and the ESM. He describes the rationale for several key decisions, including the decisions to produce both country-focused and regional reports and to make its reports public as well as putting in place training procedures and a methodology to ensure the consistency of quality.

In "The Role of Regional Macroeconomic Surveillance," Chuin Hwei Ng (Toronto Centre) reflects on her experience as a member of the AMRO macroeconomic surveillance team. She writes that a top priority was to earn the trust of member states through the "quality, timeliness and relevance of its surveillance products." In response to the needs of regional politics, Ng notes the importance of AMRO's reports on regional trends and shared challenges that provide cross-cutting analysis of shared challenges, remarking that this sort of analysis is typically lacking in the work of the IMF or national governments' reporting. AMRO's responsiveness to the COVID-19 pandemic, including the creation of the COVID Monitor, the Turnaround Tracker and the Panoply of Pandemic Policies database, is another example of its responsiveness to the needs of member economies. Ng also highlights the importance of AMRO in capacity building for some of its smaller developing economies, both through the professionalization afforded to seconded officials and in the dialogue between surveillance teams and government agencies.

Junko Shimizu (Gakushuin University) shows another aspect of AMRO's approach to capacity building and its responsiveness to members' interests. In "Local Currency Contribution to the CMIM Project," she presents the results of her research into the potential benefits for nondollar swaps to member states. This research was sponsored by AMRO's collaborative research program, which invites outside scholars to contribute to regional knowledge about emerging economic challenges and opportunities as well as to engage in intellectual exchange with AMRO officials. Shimizu's research contributed to the decision of the ASEAN+3 finance ministers to formally approve the use of local currency swaps as an option for members in need of liquidity. The option of implementing CMIM swaps using local currencies instead of dollars may also expand the mission of the CMIM beyond emergency liquidity provision to also encompass more routine liquidity operations between member states.

The remaining chapters shift their focus away from AMRO toward a more global picture. Martin Edwards (Seton Hall University) analyzes the experience of IMF surveillance to other surveillance efforts in "Calibrating Surveillance to Member Country Needs." Echoing an issue raised by Suzuki and Nemoto, he writes that over time, the IMF has sought to balance its roles as "trusted advisor" and "relentless truth teller." He also notes changes over time in the IMF approach to surveillance to make it more accountable through public accessibility and more useful to member economies by focusing on "macro-criticality" and provision of actionable items. Turning his gaze to AMRO, Edwards finds many similarities with IMF surveillance practices, with the main differences being in emphasis and on the importance accorded to regional as opposed to national trends.

In "RFAs in the GFSN: Surveillance in the AMF and the EFSD," Barbara Fritz and Laurissa Mühlich (Freie Universität Berlin) analyze the role of RFAs in the GFSN. Focusing on two smaller and less well-known RFAs, the Arab Monetary Fund (AMF) and the Eurasian Fund for Stabilization and Development (EFSD), they show how RFAs contribute to regional financial stability. While much smaller than the CMIM and lacking the organizational capacity of AMRO, they have become important in providing liquidity support to members. Fritz and Mühlich emphasize that transparency and measures to reduce the inequality of voting rights can make RFAs more trusted and useful to smaller members.

In "Designing Surveillance in RFAs in the Presence of the IMF," C. Randall Henning (American University) expands on the role that RFAs play in the increasingly complex GFSN, in which the IMF is no longer the sole provider (and in many regions not even the main provider) of emergency liquidity. Like Suzuki, he notes that RFA surveillance operates in the shadow of IMF surveillance, leading to strategies ranging from complementarity to overlap to competition. He notes the benefits of overlap, including the ability of countries to get a "second opinion" and a broader range of policy options. For both RFAs and the IMF, Henning also emphasizes the importance of functional autonomy of surveillance from member governments and capacity building.

Haihong Gao (Chinese Academy of Social Sciences) focuses on coordination between RFAs and the IMF in "The IMF and RFAs: Surveillance Reform for Global Financial Stability." Citing the IMF's "2014 Triennial Surveillance Review," which called for, among other things, improved focus on spillovers across borders, she expresses concern that IMF External Sector Reports (ESRs) still do not adequately address exchange rate and cross-border capital flow issues. Thus, she argues for the importance of AMRO and other RFAs developing region-specific early warning systems. In addition, Gao calls for continuing existing efforts to build effective coordination between IMF and RFA surveillance. She argues that this may be one way to reduce the "IMF stigma" often expressed by East Asian economies in the decades since the 1997-98 AFC.

Finally, in "Strengthening the International Financial Safety Net with South-South Principles of Analysis, Alternative, and Choice," Diana Barrowclough of the United Nations Conference on Trade and Development (UNCTAD) argues that RFAs should contribute to the development of a more stable and equitable global economy. RFA surveillance can contribute to that goal by amplifying the voices and preferences of Global South members, which often value autonomously devised national development strategies that differ from the perspective of wealthy countries that value free trade and financial globalization over economic development and equity. RFAs can develop alternative frameworks for analyzing macroeconomic policy and financial stability that may better suit developing economies than existing IMF models, for example, by emphasizing the principle of solidarity over that of efficiency.

CHAPTER 1

THE PROMISE AND PERIL OF MULTILEVEL SURVEILLANCE IN EAST ASIA

MOTOSHI SUZUKI[5]

CONTAGION PREVENTION AND MORAL HAZARD

Government officials of the East Asian countries severely affected by the AFC questioned the IMF's ability to properly evaluate the countries' economic conditions (Quibria 1999). In their view, the IMF failed to predict and prevent an investor panic that they believed was the main culprit of the contagious crisis. They stressed that the IMF incorrectly imposed upon the financially stressed countries a package of stiff conditionality to execute structural reform that was unmatched for their national economies (Pyo 2001). As argued by Stiglitz (2002), the IMF-led fiscal contraction reduced governments' investment and public services and slowed down economic growth precipitously, and monetary tightening put numerous indebted firms into bankruptcies or foreign acquisition by augmenting their repayment burdens. Having disapproved of the IMF's structural approach to the AFC, they expected that AMRO should take an alternative approach to contain contagious financial crisis. That is, to safeguard against investor panic and contagion, AMRO should send a credible signal to private investors that a member country under surveillance is economically sound enough to maintain lending and investment, if it finds so. However, such a signal may be counterproductive, by assuaging the country's government officials a bit excessively, encouraging them to allow public and private borrowing to increase to precarious levels. This means that such reassurance aggravates moral hazard and thus investor panic.

THE EMERGENCE OF MULTILEVEL SURVEILLANCE IN EAST ASIA

AMRO was established in 2016 as a regional international organization to conduct macroeconomic surveillance for 13 ASEAN+3 countries. The agreement establishing AMRO sets forth the purpose of contributing to "securing the economic and financial stability of the region through conducting regional economic surveillance and supporting the implementation of the regional financial arrangement," (AMRO 2016) or the CMI.[6] The agreement gives AMRO the following functions: (1) "to monitor, assess and report to members on their macroeconomic status and financial soundness" (surveillance); (2) "to identify for members macroeconomic and financial risks and vulnerabilities in the region and assist them, if requested, in the timely formulation of policy recommendations to mitigate such risks" (consultation); and (3) "to support members in the implementation of the RFA" (activation for emergency liquidity assistance). (AMRO Agreement) With these functions, East Asia

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[6] The CMI refers to "the multilateral liquidity support arrangement under the APT framework to address potential and actual balance-of-payments and short-term liquidity difficulties in the region."

has now acquired a multilevel surveillance system within which the IMF is a global mechanism, with AMRO being a regional partner.

Whereas the surveillance practices of the IMF and AMRO overlap considerably in practice, the two are expected to engage in robust inter-institutional cooperation to create a seamless surveillance network by fulfilling complementary tasks. However, there remains a seed of task conflict or substitution. In general, institutions are established based on the "beliefs, norms and expectations" (together, expectations in this chapter) shared by the members (Greif and Kingston 2011, p. 26). This general assumption entails the two distinct scenarios for multilevel surveillance in East Asia that are outlined as follows.

Insofar as expectations shaping AMRO are consistent with those defining the IMF, the two institutions can play complementary roles in reducing the probability of financial crisis from multifaceted perspectives. The global and regional surveillance units will then in effect constitute a seamless regulatory web through which both stable order and dynamic growth can ensue in the region. However, expectations are often complex and could influence the formation of AMRO's task in a way that would be inconsistent with the IMF's. East Asian countries have expectations on the role of government in economy and society that may be different from those of Western countries that have influence on the IMF's task.[7] If so, the AMRO established by East Asian countries would perform a task that might be in conflict with, or substitutive for, that of the IMF. This means that task implementation by one institution might hinder that of the other institution, together unable to reduce the possibility of financial crisis efficiently. In this chapter, I develop this line of argument and offer a policy prescription for AMRO to be a viable surveillance institution in the region.

COMPLEMENTARITY

For efficient inter-institutional collaboration, each surveillance unit perceives its own limitation in fulfilling its task and expects that task implementation by the other unit will overcome the limitation. In this fashion, a regional and global unit can obtain task complementarity and thus collaborate with each other to detect and solve complex and contagious financial crises with multiple causes (Kawai, Newfarmer and Schmukler 2005; Reinhardt and Rogoff 2011). In fact, the IMF and AMRO may recognize their own limitations and the possibility of task complementarity as described below.

THE IMF'S LIMITATION

The IMF's limitation was found in its inability to prevent contagion effects associated with several financial crises that occurred during the 1990s (Fischer 1998). In particular, the AFC of 1997-98, the crisis most relevant to the establishment of the CMI, is said to have spread via contagion in the region (Dornbusch, Park and Claessens 2000; Radelet and Sachs 1998; Chang and Velasco 1999; Furman and Stiglitz 1998). As one country (Thailand) entered the crisis due to structural problems with its fundamentals, investors examined other countries for similarities and shifted portfolios or were compelled to do so as the first country's demise raised risk on the whole class of investment, producing contagion and investor panic. The contagion worsened due to governments' inability to undertake effective action because of regulatory weaknesses in their financial systems. Nonetheless, the extent and depth of the AFC should not be attributed solely to deterioration in the affected countries' fundamentals but rather to panic on the part of domestic and international investors.[8]

[7] Matsuo, Suzuki and Uji (2023) conduct a quantitative text analysis to compare country reports by the AMRO and IMF for 13 ASEAN+3 countries between 2016 and 2019. The authors find some ideational difference between them.

[8] There is a third vulnerability—explicitly or implicitly pegged exchange rate regimes—subject to speculative attacks if the markets perceive that the true value of the currency is misaligned with its pegged value (Corsetti, Pesenti and Roubini 1999; Burnside, Eichenbaum and Rebelo 2001).

Since its establishment, the IMF has engaged in macroeconomic surveillance as a part of its treaty obligations to detect structural imbalances and cure them by providing structural facility with conditionality to protect creditors. It provided neither sectoral surveillance nor emergency liquidity assistance that were beyond the treaty obligations. The IMF has recently developed the Financial Sector Assessment Program, multilateral surveillance and early warning exercises. However, the inadequacies of surveillance have remained even after the global financial crisis (GFC) because financial systems are often opaque due to technical complexities, manipulative behavior by traders and regulatory deficiencies (Levine 2014). This is also due to the IMF having an organizational culture that stresses the macroeconomics of monetary and fiscal policy. Sectoral surveillance needs specific knowledge and information on the banking and related sectors of member countries that few IMF staff possess in their analytical toolbox (Moschella 2012). Even if some have it, it is difficult to pass them on to others in the wake of staff turnovers.

This void is expected to be filled by AMRO. An institution with detailed knowledge on financial sectors in the member countries is likely to be better able to detect weaknesses in the financial systems of neighboring countries that will arouse contagion. Thus, AMRO can sound an early warning of a crisis through its surveillance mechanism and thus is likely to be more effective in obtaining traction from countries to take the necessary action through peer pressure (Kawai, Newfarmer and Schmukler 2005). To exploit this, AMRO is expected to conduct financial sector surveillance with in-depth information and knowledge on regional and national financial systems. This kind of leverage is generally unavailable to a global institution. Hence, the detection and containment of contagion or spillover effects is the most important justification for setting up AMRO in East Asia given that the global institution has already been in place to deal with structural imbalances.

AMRO'S LIMITATION

By contrast, AMRO is unsuitable for addressing structural imbalances. Several analysts view structural imbalances as the primary cause of the AFC, contradicting the contagion hypothesis discussed earlier (Corsetti, Pesenti and Roubini 1998; Dooley and Shinn 2001). They argue that fundamental imbalances triggered the AFC even though after the crisis started, market overreaction and herding behavior led to the plunge of exchange rates, asset prices and economic activity to become more serious than warranted by the initial economic and financial conditions. In detecting and reducing such imbalances, an RFA generally has weakness because, for a variety of political reasons, its neighboring signatories find it hard to demand painful adjustments of other states in the region in return for emergency assistance (Eichengreen 2012). Despite functional delegation to the RFA, the neighboring states still must provide the RFA with funds and political will to detect and correct structural imbalances. Because few can do so, institutional ambiguities remain within the RFA.

Hence, the IMF is still crucial for an RFA with respect to external surveillance and conditionality mechanisms to ensure crisis detection and structural adjustment as well as to prevent moral hazards (Henning 2011). It is even more so for the East Asian RFA, or the CMIM. Substantively, sufficient capacity is lacking in the CMIM. Indonesia, for instance, can withdraw up to $22.76 billion, but only $9.1 billion would be available without the IMF. With a total external debt of approximately $340 billion (or 34 percent of its GDP), Indonesia is too big for the unlinked portion of CMIM funding. Similarly, South Korea could draw up to $15.36 billion under the CMIM without the IMF; during the GFC, it relied on a $30 billion swap arrangement with the U.S. Federal Reserve System, of which $16 billion were withdrawn.

Thus, the IMF is deeply involved in the CMIM. Under the CMIM, a participating government can withdraw up to 40 percent of the agreed-upon amount from the CMIM facility without IMF approval, but withdrawing above this requires approval and related conditionality. Moreover, two large signatories—China and Japan—are cautious in putting substantial financial resources into the CMIM without adequate protection (Grimes 2009). Therefore, in the event of a crisis too big for the CMIM, Beijing and Tokyo may come under pressure to provide emergency resources directly, if an affected country wishes to avoid the IMF. The desire not to be called on for bilateral assistance is a major reason why the CMIM has kept the ratio of IMF delink at 40 percent, as it guarantees that the IMF will be drawn into any major financial crisis. Procedurally, this rule enables the IMF to lead structural adjustment in an affected country by employing its rigorous reform procedures. Nonetheless, the importance of the IMF in correcting structural imbalances does not repudiate the importance of the CMIM in addressing episodes of international reserve shortage and providing emergency liquidity to prevent contagion.

These asymmetric functional arrangements of the IMF and the CMIM seem to imply an opportunity for task complementarity between the two in preventing future financial crises. As for the IMF, the task will be to detect structural imbalances via macroeconomic surveillance and, if detected, urge the government of the country under surveillance to reduce structural imbalances or overborrowing in the public and private sector through structural reforms. To facilitate the reforms, the IMF provides structural facilities or loans conditional on the country's progress toward implementing the reform. As for AMRO, the task will be to detect regulatory weakness and, if not, to attest that macroeconomic fundamentals in the country under surveillance are sound enough for steady private investment and loans and emphasize that unsubstantiated fear and market overreaction are the problem. To avoid capital flight and contain contagion, clarification of good fundamentals needs to be associated with precautionary lending without conditionality to signal that the targeted country manages its economy well enough to continue loans and investment in the country. These lines of argument suggest that the surveillance tasks by the IMF and AMRO are consistent with each other in addressing the two major causes of financial crisis. Stated differently, the causal complexity of financial crisis necessitates a multilevel surveillance system, within which the global and regional institutions employ unique surveillance techniques with distinct geographical scopes in a coordinated manner to detect and prevent financial crises.

SUBSTITUTION

However, complementarity may not be easily obtainable in a real world of expectational fragmentation and institutional complexity. In contradiction to the preceding complementarity thesis, expectations are often complex and contradictory rather than straightforward and consistent. Such expectations are twofold.

First, as noted earlier, East Asian countries have expectations that government should play a prominent role in economic development and social well-being through a variety of policy instruments (Aoki 2014). Their expectations on government authority may be different from the market-centric expectations by the IMF positing that markets will perform a vital role in supplying productive capacity and facilitating efficient exchange. Second, government officials in several East Asian countries interpreted the causes and processes of the AFC differently from the IMF. The East Asian view toward the AFC created an RFA that might be functionally different from the IMF, turning the task relationship between the two into substitution and making it difficult to use their unique surveillance techniques in a complementary fashion.

STRUCTURAL REFORM AND VULNERABILITY

In general, the IMF has market-centric beliefs and expects that markets will play a proper adjustment role if government reduces its excessive role that it views as a cause of structural imbalances. To prevent a worsening of structural imbalances, the IMF stresses the importance of structural reform. The organization's "2014 Triennial Surveillance Review" indicates that it has made its previous stringent position on reform a bit more flexible, by presenting a "heatmap" or trajectory that draws graduated structural reforms in accordance with income levels (IMF 2015). However, it still supports a positive relationship between structural reforms and long-term macroeconomic performance.

From East Asian perspectives, some structural reform will make developing and emerging economies susceptible to social instability and even contagion because they often lack the governmental capacity to provide a social safety net and the robust capital markets to cushion the negative spill-over effects of unremitted cross-border financial movement (Barth, Caprio and Levine 2004; Kawai, Newfarmer and Schmukler 2005; Buckley 2000; Eichengreen and Luengnaruemitchai 2004). They also fear that reform will unleash market forces at the expense of the government authority to maintain economic and social stability (Calder and Ye 2004). A similar fear has promoted the East Asian countries affected by the AFC to accumulate large international reserves to prepare for unexpected capital flights and sudden stop crises to prevent financial crisis and structural reform (Aizenman and Lee 2005). Furthermore, the COVID-19 pandemic has reminded countries that a government's regulatory and fiscal capacities are crucially important for maintaining social stability and preventing the economy from sliding into depression (Crabtree 2020).

These expectational differences in government authority imply a possibility of task substitution between the IMF and AMRO. There is also the possibility of task substitution derived from different interpretations of the causes and resolution of the AFC, as noted in the introduction to this chapter.

CONCLUSION

With the establishment of AMRO, East Asia has acquired a multilevel surveillance system with the IMF. This system creates an opportunity for two institutions with unique functional arrangements and geographical scopes to prevent financial crises by reducing structural imbalances and contagion via well-crafted coordination. Such a multifaceted system is necessary to prevent multicausal financial crises. However, as argued thus far, complementarity will turn into substitution if coordination fails due to divergent expectations embedded in the two institutions.

I conclude this chapter by discussing the twin issues of trust and enforcement. How can a regional surveillance institution both gain the trust of its members and serve as an effective enforcer of regional financial stability? And how does this affect the trade-offs between complementarity and substitution?

When facing member countries, an international institution generally has a choice between being a trusted advisor and enforcer. Being a trusted advisor means that AMRO sets forth its main task as the promotion of the members' policy objectives, typically economic growth and social stability. By doing so, AMRO can gain their trust and be allowed to have access to in-depth information for sectoral surveillance as its strength. By contrast, being a strict enforcer means that it views the task as maintaining a stable international financial order. If AMRO chooses to be a strict enforcer, it will increase the possibility of task complementarity with the IMF that stands for order but will reduce the members' trust. If it chooses to be a trusted advisor, it will obtain their trust but will increase the likelihood of task substitution vis-à-vis the IMF.

A solution to this dilemma for AMRO is to be an intermediary institution between a trusted advisor and an enforcer. Such a position will enable it to implement effective sectoral surveillance by obtaining the members' trust at a moderate level and access to in-depth information on their financial sectors, which the IMF lacks. At the same time, it will maintain a complementary relationship with the IMF, reducing excessive reassurance that may arouse moral hazard. Through such intermediation, AMRO will be a unique, if not perfect, surveillance institution that is distinguishable from the IMF and capable of addressing the twin issues.

CHAPTER 2

LESSONS FROM SETTING UP A SURVEILLANCE UNIT FOR A RFA

YOICHI NEMOTO[9,10,11]

RFAs in East Asia were initiated following the AFC of 1997-98, and although a network of BSAs were established under the CMI starting in 2000, there was no economic surveillance unit. After the GFC of 2008-09, RFAs in East Asia made institutional advancements in two fronts. First, in 2010, the network of BSAs under the CMI was rearranged into a single agreement: the CMIM Agreement. Second, to support this activity, an independent surveillance unit of the CMIM— AMRO—was set up. AMRO was first established as a nonprofit company (AMRO company) in 2011 and was transformed into an international organization (AMRO IO) in 2016.

This chapter sets out the lessons learned from setting up a surveillance unit for an RFA. More concretely, the following lessons are studied:

- Economic surveillance as a part of RFAs;
- Transformation from a nonprofit company into an IO; and
- Matching staff to home countries.

A SHORT HISTORY OF AMRO

The ASEAN+3 countries agreed to create an independent third-party macroeconomic surveillance unit in February 2009, five months after the outbreak of the GFC (Chabchitrchaidol, Nakagawa, and Nemoto 2018; Nemoto and Pang 2022).[12] Over the following two years, operational and policy issues were considered, and as a result of these deliberations, AMRO was established as a nonprofit company (formally, a "public company limited by guarantee") in Singapore in April 2011. AMRO began recruiting economists soon after, and its economic surveillance activities started in the fall of 2011. Vietnam was the first country visited, in October 2011.

[9] Hitotsubashi University, School of International and Public Policy.
[10] The author would like to thank the participants in seminars held at Boston University and Kyoto University for their helpful comments and questions. Nonetheless, any errors and mistakes are entirely the fault of the author. The author was the previous director of AMRO, but the views expressed here are solely those of the author in private capacity and do not in any way represent the official views of AMRO nor the ASEAN+3 authorities. The information contained in this brief is based on public knowledge, publicly available information, the author's personal observation or knowledge the author had already possessed before working for AMRO. No confidential information the author received during his tenure at AMRO is disclosed in this brief. The information provided by AMRO (IO) is explicitly mentioned.
[11] The author acknowledges the Japan Society for the Promotion Science (JSPS) Kakenhi Grant Number 19K01621 for the support for his study of RFAs.
[12] See the joint media statement in February 2009. All the joint statements of the AFMM+3 and the AFMGM+3 are available at AMRO's website: http://www.amro-asia.org/news-events/joint-statements/.

In May 2012, ASEAN+3 finance ministers and central bank governors started their deliberations to draft an international treaty to transform AMRO into an IO, which was signed on October 10, 2014. Following its ratification by members (per Article 26 of the AMRO Agreement), the treaty took effect on February 9, 2016 (AMRO Agreement). Table 1 summarizes the timeline of AMRO being established as a company and then transitioning into an IO.

Table 1: Process of AMRO's Establishment as a Company and Transformation to an IO

Feb 2009	AFMM+3 decided to establish an independent surveillance unit.
Apr 2011	AMRO (company) was established in Singapore.
Oct. 2011	AMRO (company) started its surveillance.
May 2012	AFMGM+3 agreed "to accelerate the preparation to institutionalize AMRO as an IO."
Sep. 2012	Working-level discussion started on drafting a treaty.
Nov. 2013	Consensus was reached on the draft "AMRO Agreement."
Oct. 2014	"AMRO Agreement" was signed by ASEAN+3 countries.
Oct. 2014	ASEAN+3 authorities started domestic approval process.
Feb. 2016	AMRO (IO) was established.

Source: Compiled from the Annex of Chabchitrchaidol, Nakagawa and Nemoto (2018). Original sources are based on the joint statements of AFMM+3 and AFMGM+3 (ASEAN+3, annual).

ECONOMIC SURVEILLANCE AS A PART OF RFAS

FRANKNESS AND SENSITIVITY

During ASEAN+3 authorities' discussion to start up a regional economic surveillance unit, many outside observers were skeptical (Henning 2002; Kenen and Meade 2008; Eichengreen 2012), while even officials recognized it as a challenge (Kuroda and Kawai 2002; Nemoto 2003). They argued that East Asia lacked the cultural and historical background for frank discussion, and they believed that the noninterference policy under the ASEAN framework would also prevent frank discussion among participants. In addition, ASEAN+3 authorities had little experience handling sensitive issues among themselves. Some of these issues had the potential to create domestic policy debates, while some could trigger abrupt reactions from market participants. The IMF experienced similar issues after it started publishing Article IV reports in 1999, as ASEAN+3 members were aware (IMF 1999).

Member economies were not accustomed to a frank assessment of economic developments and policies, even if it was only shared among ASEAN+3 authorities, especially when regional surveillance exercises were being set up. This may be due to cultural reasons of avoiding "losing face" as well as potential domestic political fallout. At the same time, during the GFC there was a clear recognition of the importance of a quick and objective evaluation of economic and financial conditions by an independent third party, as expressed in a joint media statement in February 2009, which stated that "the regional surveillance mechanism should be further strengthened into *a robust and credible system which will facilitate prompt activation of the CMIM. An independent regional surveillance unit will be established to promote objective monitoring*" (ASEAN+3 2009, *italics* added by author). Thus, AMRO (the company and the IO) had to balance the challenge of being frank while also being mindful of market environments.[13]

MACROECONOMIC SURVEILLANCE OFFICE AND THE IMPORTANCE OF FINANCIAL ASPECTS

AMRO was established to strengthen the macroeconomic surveillance of regional economies to facilitate the CMIM's prompt activation. This purpose was stated in the joint media statement (the so-called action plan) of the ASEAN+3 finance ministers' meeting in February 2009, mentioned above. At the same time, the importance of financial aspects was stressed from the outset given the financial instability and volatile capital flows experienced by ASEAN+3 economies since the AFC and GFC. Accordingly, AMRO focused on financial issues from the beginning.

AMRO's first regional report, "ASEAN+3 Regional Economic Outlook 2017," analyzed capital flows, banking sector issues and other issues.[14] In addition, two thematic reports, which are the only economic reports published during the time AMRO was a company, both concern issues in the financial sector. The first one, "Understanding Banking Supervisory Priorities and Capacities in ASEAN+3 Economies," aims to objectively understand banking supervisory priorities and capabilities, which play important roles in preventing crisis in the domestic financial sector (AMRO 2015). The second report, "Non-Financial Corporate Bond Financing in Foreign Currency: Trends and Risks in ASEAN+3 Emerging Economies," examines the size and nature of foreign currency bond financing by nonfinancial corporations. This trend was accelerated by the quantitative monetary easing policies adopted by advanced country central banks after the GFC and euro crises (see AMRO 2016b).[15]

Eichengreen and Woods (2016) highlight the IMF's challenges regarding integrating macroeconomic and financial analysis within the institution. AMRO was small enough to avoid such internal information silos in its early days, but it may start to face the same challenges as its surveillance team gets bigger.

COUNTRY-BASED SURVEILLANCE AND REGION-WIDE SURVEILLANCE

At the first ASEAN+3 deputies' meeting in Sendai in December 2011, the deputies discussed the need for AMRO to consider both country-based and region-wide surveillance. However, there was some tension among the authorities. Some wanted to avoid (or shorten) country-based discussions and asked AMRO to present region-wide issues, while some wanted to spend more time on country-specific issues (to stay accountable to their taxpayers for possible CMIM activation) at the expense of region-wide issues. This tension arose due to the inherent nature of RFAs, where member countries could act as both lenders and borrowers depending on the circumstances. As long as an economic surveillance unit exists, it will have to navigate this tension.

In 2013 AMRO began recruiting economists who were strong in certain areas (e.g., fiscal policy, banking supervision, financial markets), which in turn allowed both analyses of both country-based surveillance and region-wide surveillance via AREOs. Country reports of all members have been available on AMRO's homepage since July 2020.

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[13] Grabel (2017, p. 146-151) emphasizes that the learning, trust, bargaining and socialization by ASEAN+3 officials may create conditions for more significant cooperation and further institutional development. See Katada and Nemoto (2021) for the development of policy networks among ASEAN+3 officials since the AFC.

[14] The reports between 2011 and 2016 are not available due to the strict publication restriction, as noted below. This 2017 report was the first regional report that AMRO made public. See AMRO (2017).

[15] The report highlights differences among countries. Several economies had taken macroprudential measures, and nonfinancial corporations' bond issuance in foreign currencies were about to be contained, while a couple of economies left the issue untouched.

COLLABORATION AND SOUND COMPETITION WITH OTHER IFIS

During the start-up period of AMRO's regional surveillance, the European sovereign debt crisis occurred. In the aftermath of the crisis, the so-called troika consisting of the European Commission, the European Central Bank (ECB) and the IMF (and the ESM after its establishment in 2012) were formed (Henning 2017). Accordingly, AMRO's collaboration with other IFIs was regarded as top priority. The collaboration includes the following global and regional institutions:

- Global institutions (e.g., the IMF, the Bank for International Settlements, the World Bank);
- Regional organizations (e.g., the ASEAN Secretariat, the ADB); and
- RFAs' organizations in other areas (e.g., the ESM, the FLAR).

Both AMRO and the IMF understood the necessity of good coordination. Due to the characteristics of AMRO being a nonprofit company and having no legal base at the time, official memoranda of understandings (MOUs) could not be concluded until 2017, but unofficial exchange of views occurred in various forms.[16]

In most cases, the two institutions' views seemed to be similar. For example, in situations of volatile capital flows, recommended policies to authorities included implementing more flexible exchange rates alongside the introduction of macroprudential measures (including capital controls or so-called capital flow management measures). In rare instances, their policy recommendations seemed to be different; however, this did not confuse policymakers much and in many cases contributed to a deeper understanding of policy issues. Some may argue that sound competition among IFIs could result in improved and more thorough insights, as long as they sufficiently communicate with each other. As AMRO develops its capabilities, it is expected that both the IMF and AMRO will play complementary roles in the future.[17]

Other RFAs welcomed AMRO's start-up. The FLAR invited AMRO to its annual conferences, and the ESM shared its experiences of transforming from a nonprivate organization (EFSF) to an IO (ESM). These interactions led to AMRO forming an MOU with the ESM in 2017 and the FLAR in 2018. In addition, the IMF, the ESM, the FLAR and AMRO have made joint statements since 2017.

TRANSFORMATION FROM A NONPROFIT COMPANY TO AN IO

OVERCOMING THE SHORTCOMINGS OF BEING A NONPROFIT COMPANY

As described above, AMRO was first established as a nonprofit company, which allowed the ASEAN+3 to have a framework in place to carry out surveillance during the ongoing unstable financial conditions after the GFC. A year later, in May 2012, ASEAN+3 finance ministers and central bank governors recognized that as a nonprofit company, AMRO had some shortcomings. They believed that transforming AMRO into an IO would help address these shortcomings and drafted a treaty to establish AMRO as such, with clauses to address AMRO's limitations as a nonprofit company (ASEAN+3 2012, 2016a).

[16] AMRO (company) started to participate at the IMF/World Bank annual meetings as observer in October 2013. The MOU between AMRO and the IMF was signed on October 10, 2017 and was renewed on October 11, 2020. See the homepages of AMRO and the IMF.

[17] Grabel (2017, p. 146-151, 239-245) argues that pluripolarity has the potential to facilitate experimentation (including forum shopping by smaller CMIM members) when the financial architecture is organized around a central authority that is driven in turn by a uniform ideology. Katada and Nemoto (2021) emphasize that policy diffusion from the regional to the global stage (i.e., usefulness of capital control measures) has occurred after the GFC.

The following are five limitations the authorities identified:[18]

1. The activities of AMRO and its staff were not sufficiently protected without a treaty (i.e., international promise approved by ASEAN+3's parliaments), meaning that various protections were lacking.
2. Member countries were not obliged to provide AMRO with the same information they provided to the IMF. The requests from AMRO (the company) were not legally binding, in contrast to those based on a treaty approved by parliament.
3. AMRO (the company) could not officially establish cooperative relationships with other IOs such as the IMF, the ESM or the ASEAN Secretariat.
4. There was no legal base for AMRO (the company) to work for member authorities in supporting the CMIM's implementation.
5. External publication by AMRO was strictly conditioned.

In what follows, I first describe how AMRO changed from a company to an IO and was subsequently set up as a regional surveillance unit. I then discuss how some of the issues described above (publication policy and the IO's supporting role in the CMIM's implementation) were addressed through AMRO becoming an IO.

SETTING UP THE REGIONAL SURVEILLANCE UNIT

AMRO first being established as a nonprofit and then transformed into an IO to set up a surveillance unit was not an ideal approach. However, it was done to address a sense of urgency about the exceptional circumstances caused by the GFC, the euro crisis and quantitative monetary easing measures by advanced countries' central banks. One advantage to this approach was that member countries knew that establishing an IO could take several years—as was the case for the IMF and the ADB (as shown in Table 2)—if the treaty had to be approved by respective parliaments, potentially posing further risks. Another advantage is that AMRO (the company) and ASEAN+3 authorities had enough time between the establishment of AMRO as a company 2011 and the signing of the treaty to make it an international organization in 2014 to review and assess the characteristics of setting up a regional economic surveillance unit, including the shortcomings of AMRO as a company. The treaty was drafted to include measures to overcome AMRO (the company)'s perceived shortcomings.

Table 2: Comparison of the Process to Establish the AMRO as an IO

	IMF	ADB		AMRO
Start of discussion	Mar. 1943	Dec. 1963	Establishment as a private company	Apr. 2011
Signing of treaty	July 1944	Dec. 1965	Start of discussion on transition to IO	May 2012
Establishment	Dec. 1945	Aug. 1966	Signing of treaty	Oct. 2014
Operationalization	Mar. 1947	Dec. 1966	Transition to IO	Feb. 2016

Source: Chabchitrchaidol, Nakagawa and Nemoto (2018). Original sources are IMF (1996), McCawley (2017), Watanabe (1973) and joint statements of AFMM+3 and AFMGM+3 (ASEAN+3, annual).

[18] See Chabchitrchaidol, Nakagawa and Nemoto (2018, Table 2) and Nemoto and Pang (2022) for legal implications. To rectify five shortcomings in the text, the first two need parliamentary approval (for most countries), while the remaining three need specific provisions in the AMRO Agreement, whose approval is not necessarily needed by the parliaments. For simplicity, the author does not discuss the legal protection by headquarter agreements in this note.

PUBLICATION POLICY

Before the treaty was signed, AMRO's external publication policy as a company was strictly conditioned.[19] It needed to gain explicit approval from all 27 authorities (ministries of finance and central banks of 13 countries plus the Hong Kong Monetary Authority), meaning that any member could stop (or postpone eternally) documents from being published. After the treaty was signed, the director of AMRO (now an IO) could publish AMRO reports under a publication policy that was approved by the executive committee, which has increased the number of public publications. For example, AMRO (the company) published only two reports during its first five years[20] compared to the 58 that AMRO (the IO) published in less than three years. The publications were first thematic reports and then grew to include regional (from May 2017 onward) and country reports. See Table 3 for the number of economic reports by year.

Table 3: Number of Economic Reports Made Public by AMRO the Company (2011-16) and AMRO the IO (2016-19)

	2011	2012	2013	2014	2015	2016 (company)	2016 (IO)	2017	2018	2019
Regional	-	-	-	-	-	-	0	1	9	6
Country	-	-	-	-	-	-	0	8	11	13
Thematic	-	-	-	-	1	1	0	2	6	2
Total		-	-	-	1	1	0	11	26	21

Source: Nemoto and Pang (2022).
Note: Numbers are as of December 31, 2019. The shaded areas indicate AMRO during the time it was a nonprofit company.

Nemoto and Pang (2022) speculate that AMRO (the company) had a restrictive publication policy because the authorities wanted to (1) keep the reports frank and expedient, (2) avoid unnecessary market speculation and (3) avoid the editing process (like the editing process of other IFIs). As previously mentioned, the consultation reports of all member economies have been accessible from AMRO's homepage since July 2020. The significance of the surveillance reports' content means it is premature to determine if AMRO and ASEAN+3 authorities have addressed the concerns raised by Nemoto and Pang. AMRO faces the ongoing challenge of carefully balancing unnecessary market stability with transparency, without unnecessarily infringing on either.

SUPPORTING ROLE IN THE CMIM'S IMPLEMENTATION

According to the joint ministers' statement in May 2010, the primary aims of AMRO (the company) were for economic surveillance ("to monitor and analyze regional economies, which contributes to the early detection of risks, swift implementation of remedial actions, and effective decision-making of the CMIM"), not directly supporting the CMIM (ASEAN+3 2010). Once the company was established in April 2011, ASEAN+3 authorities started to use it to support the CMIM's implementation. This was exemplified by the development of the ERPD Matrix, an economic indicator that the ASEAN+3 deputies explicitly tasked AMRO (the company) to develop. This matrix was then used

19 The articles of agreement to establish AMRO (the company) have not been made public.

20 See AMRO (2015) and AMRO (2016b), cited in the Macroeconomic Surveillance Office and the Importance of Financial Aspects section of this brief. Technically speaking, five years is the period between the establishment of the AMRO company and that of the AMRO IO. The former was legally dissolved on December 24, 2019.

by the company to evaluate member qualifications for the CMIM Precautionary Line (CMIM-PL),[21] which was designed to provide swaps to good performers and introduced in July 2014. ASEAN+3 deputies started to involve AMRO (the company) in CMIM test runs, which are designed to check the CMIM's operational readiness.[22]

Article 2 of the AMRO Agreement explicitly states that "the purpose of AMRO [the IO] is to contribute to securing the economic and financial stability of the region through conducting regional economic surveillance and supporting the implementation of the regional financial arrangement" (AMRO 2016a). After the legal base was confirmed, the challenge for AMRO (the IO) was enhancing its operational readiness, especially regarding surveillance in times of crisis (Nemoto and Pang 2022), by having closer relationships with the organizations that were more experienced with crises, such as the IMF and the ESM.[23] In 2016, CMIM members invited the IMF to participate in test runs aimed at developing a cooperation mechanism for burden sharing, financing conditions and information sharing.[24]

In 2019, ASEAN+3 finance ministers and central bank governors announced that they had adopted the ERPD Matrix Scorecard, developed by AMRO and the ASEAN+3 taskforce, as a qualification reference for the CMIM Precautionary Line (CMIM-PL) (ASEAN+3 2019; Ong and Gabriella 2020).[25] Both the results from the joint test runs and the adoption of the ERPD Matrix Scorecard were included in the second amendment of the CMIM, which took effect on June 23, 2020 (AMRO 2020a).

MATCHING STAFF TO HOME COUNTRIES

AMRO (the company) was set up as a compact organization with a small staff, including six economists responsible for assessing 14 economies (10 ASEAN countries, China, Hong Kong, China, Japan and Korea). This arrangement raised several operational questions including whether it was appropriate to assign a staff member to assess their own home country. This is an issue that is more likely to apply to smaller organizations, such as AMRO, which do not have representative offices or are as big as the IMF or the ADB (which can staff a country team and have resident representative offices to collect the necessary local information and statistics).

One advantage of "matching" a staff member to their home country is easier access to information and statistics, which may be only available in the local language and require local knowledge for proper interpretation. Private data providers are available for the larger economies that AMRO covers, but it is often costly and only affordable for financial market participants and financially well-resourced international institutions.[26]

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[21] For details, see the Joint Statement of the 16th AFMGM+3 (ASEAN+3 2013). The reason the ASEAN+3 authorities needed to explicitly task AMRO CLG (the company) to develop this ERPD Matrix is because it is said that the articles of agreement of AMRO (the company) defines AMRO's functions within a narrow scope and the work on the ERPD Matrix falls outside of it. See also the joint statements of AFMM+3 in May 2014 and 2015 (ASEAN+3 2014, 2015), which mentioned AMRO's roles regarding the CMIM's operational guidelines, test runs and creation of the ERPD matrix (for crisis prevention). Note that these periods were before AMRO became an IO in February 2016.

[22] The term "CMIM test runs" was first mentioned by the Joint Statement of the 18th AFMGM+3 on May 3, 2015 (ASEAN+3 2015), while CMIM members had been conducting test runs before 2015 and called them "developing the CMIM operational readiness" (probably to not induce any market speculation).

[23] Who represents the CMIM remains an issue as the CMIM Agreement and the AMRO Agreement are two separate contracts. See Chabchitrchaidol et al. (2018, footnote 48).

[24] See the joint statements of AFMGM+3 from 2017 to 2020 (ASEAN+3, annual). Kring and Grimes (2019) highlight that the CMIM has taken on more capabilities and features that parallel those of the IMF (in particular, AMRO and CMIM-PL) rather than being simply complementary.

[25] It is not clear why it took seven years from their direction in 2012 to the adoption in 2019.

[26] A significant portion of AMRO's office-related funds, which come from the host authorities (Monetary Authority of Singapore and Ministry of Finance) have been allocated to information and database resources. See Nemoto and Pang (2022) and AMRO's annual report at https://www.amro-asia.org/wp-content/uploads/2023/05/AMRO_AR2022.pdf.

A potential disadvantage of matching is possible local biases and pressures on the AMRO economist from their government authorities. In addition, matching may lead to a lack of comparative views across member economies that external market players usually have in common. During its start-up period as a nonprofit company, AMRO's approach was to allow staff to be assigned to their home country, but they were supervised by a staff member from another country in order to maintain (and to be seen as maintaining) objectiveness in their assessment.[27] No country team consisted of staff only from the country being assessed (Grimes and Kring 2020: 442-443).

Considering abstractly, regional surveillance units are assumed to have a better understanding of member economies due to their proximity and personal relationships. However, this assumption may not always hold for small organizations, particularly during their initial phases of development. AMRO leaders understood the importance of building expertise rather than relying on proximity.

COVID-19 AND CONCLUSION

The transformation of AMRO into an IO was prompted by the uncertain economic and financial circumstances after the GFC. East Asian authorities and AMRO have since gained experience through a process of "learning by doing." This has been facilitated by institutional advancements in East Asia, such as the establishment of a third-party surveillance unit and the deepening of economic surveillance discussions based on its reports, which were not familiar to ASEAN+3 members before the GFC.

AMRO and ASEAN+3 countries have just started their exercises with many future challenges, particularly in crisis time surveillance. To strengthen its capabilities, AMRO as an IO plans to conduct test runs and learn from other institutions like the IMF and the ESM. Notably, it has provided timely information and analysis on the COVID-19 pandemic to member authorities and the wider public. For example, in 2020 AMRO published a report on the impact of the pandemic on ASEAN+3 economies in 2020 (AMRO 2020b) and created a microsite for the pandemic on its homepage that same year (https://www.amro-asia.org/covid-19-in-focus). By focusing more on financial and market issues, AMRO as an IO can play a complementary role to other layers of GFSN in the future.[28]

[27] When AMRO's size became bigger, background economists were assigned to each country team. They have since tried to include one economist from a home country in a country team.

[28] Though not directly related to economic surveillance, the activation of the multilateral crisis finance has been modest compared with the activation of the bilateral crisis finance. Mühlich, Fritz and Kring (2021) call it the (possible) "marginalization of multilateral crisis finance." The most notable difference between multilateral and bilateral facilities (in addition to credibility of providers, size and modality) is the existence of surveillance functions (by IMF and most RFAs).

CHAPTER 3

THE ROLE OF REGIONAL MACROECONOMIC SURVEILLANCE[29]

CHUIN HWEI NG[30]

While the ultimate goal of AMRO's macroeconomic surveillance has always been to support the CMIM's implementation, the focus of surveillance has evolved and developed in response to the needs of ASEAN+3 member economies. Initially, AMRO's macroeconomic surveillance focused on country-specific surveillance. Given the ASEAN+3 economies' interconnectedness with the global economy and with one another, it became clear that the country-level assessments needed to be supplemented by a region-wide assessment of external risks and shared challenges facing the region.

The integration of AMRO's economic surveillance function and its support of the CMIM is exemplified in the ERPD Matrix. The ERPD Matrix is an economic surveillance tool to assess the macroeconomic and financial performance of ASEAN+3 member economies and to assess a member economy's qualification for access to the CMIM-PL. Its indicators are now integral to AMRO's economic surveillance at country and regional levels.

In positioning itself as the region's "family doctor," AMRO will have to continually earn the trust from its stakeholders and its credibility on the global stage, through the quality, timeliness and relevance of its surveillance products. It has been suggested by some observers that there should be a division of labor in macroeconomic surveillance among the various international organizations, namely that global macroeconomic surveillance should be left to the IMF and AMRO should concentrate on the ASEAN+3 region. While AMRO's comparative advantage is certainly in the ASEAN+3 region, it cannot ignore what is happening in the global economy. Having an artificial division between what is "within" or "outside" the ASEAN+3 region does not fit the reality of an integrated global economy. AMRO's track record so far in serving the mandate given by its stakeholders bodes well for the future.

AMRO'S EMERGENCE

My contribution to this report is based on my personal experience serving in the Singapore AMRO from 2012 to 2018. Of AMRO's core functions of conducting macroeconomic surveillance, supporting the CMIM's implementation and providing technical assistance to members, I served in the surveillance function. As group head of regional surveillance, I led the team reporting to AMRO Director Dr. Junhong Chang and Chief Economist Dr. Hoe Ee Khor to produce AMRO's first two editions of

[29] The views, thoughts and opinions expressed here belong solely to the author and do not reflect the views of AMRO or any of the ASEAN+3 members.

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its annual flagship surveillance publication, the AREO in 2017 and 2018. The AREO continues to be AMRO's flagship surveillance publication.

When I joined AMRO in May 2012, it had been established just over a year earlier in April 2011, and the second AMRO Director, Dr. Yoichi Nemoto, had just taken office. With Nemoto's leadership and vision, the AMRO Agreement to establish AMRO as an international organization was signed in October 2014 and became effective in February 2016. It was a milestone. As Nemoto said in his farewell remarks at the end of his term in May 2016, "AMRO's legal personality [as an international organization] gives it independence from its members, and also confers upon AMRO a certain standing among the international community… AMRO [can] fly equally high as other major international organizations, such as the IMF, the ADB and the ESM."[31]

AMRO thrived under the leadership of its third director, Dr. Junhong Chang, and the full senior management team, which included a chief economist and two deputy directors. It signed MOUs with strategic partners such as the ADB, the ESM and the IMF in 2017 to advance cooperation and leverage on each institution's expertise. AMRO also started publishing its reports and research papers online, broadening its outreach to the public, private sector analysts, academia and the media. For the surveillance function, the purpose of this outreach is not visibility for its own sake but to improve the quality of its knowledge products through public scrutiny and feedback.

The next AMRO director, Toshinori Doi, continued the vision and mission of AMRO and has brought it to new heights during the global challenge of the COVID-19 pandemic. In AMRO's 2019 annual report, he stated that "AMRO strived to upgrade our capacity as a 'trusted family doctor' in the region, aiming to address emerging economic challenges and our members' evolving needs" (AMRO Annual Report 2019). Under his leadership, AMRO played an important role in supporting the developments in the CMIM. This was particularly evident during the ASEAN+3 Finance Ministers' and Central Bank Governors' meeting in September 2020, where a consensus was achieved. This consensus brought in two changes: first, members gained the ability to access up to 40 percent of the maximum drawable amount under the CMIM without an IMF financial program and second, the option to use local currencies as part of the financing was introduced. These changes have expanded the CMIM's capacity to deal with financial crises in the ASEAN+3 region.

THE EVOLUTION OF AMRO'S SURVEILLANCE

While the ultimate goal of AMRO's macroeconomic surveillance has always been to support the CMIM's implementation, the focus of surveillance has evolved and developed in response to the needs of ASEAN+3 member economies. As previously mentioned, AMRO's macroeconomic surveillance initially focused on country-specific surveillance. The surveillance team comprised experienced economists from ASEAN+3 member economies, most with public sector experience. To ensure objectivity, there was an internal guideline that the economist leading the assessment for a member economy would not be a citizen of that country. There were also quality assurance processes in place, with the reports presented to AMRO's advisory panel. The country surveillance team conducted annual consultation visits—supplemented by interim visits and regular offsite contact—to the member economies, meeting with stakeholders in the public sector and private sector. AMRO's reports on each member economy, covering the economic outlook, external sector, monetary and fiscal policy assessments, were tabled at the ASEAN+3 finance and central bank deputies' meetings. These country reports offered an independent view of the economic situation and outlook for each country, facilitating the discussions by deputies in the ERPD session.

[31] https://www.amro-asia.org/farewell-remarks-by-dr-yoichi-nemoto-amro-director-at-the-asean3-finance-ministers-and-central-bank-governors-meeting/

As the surveillance discussions evolved, it became clear that the country-level assessments needed to be supplemented by a region-wide assessment of external risks and shared challenges facing the region. When AMRO was first established, unconventional monetary policies in the U.S. and other developed economies prompted a surge of global capital flows into emerging markets in the ASEAN+3 region, and policymakers were concerned about the risks of external policy shocks and capital outflows. Policymakers in the region found it useful to share experiences with one another on how they had calibrated their policies to deal with such external risks. They looked to AMRO to form a region-wide assessment and to benchmark how these risks were affecting a particular country relative to other countries in the region and relative to emerging markets in other regions.

The ASEAN+3 region was also generating its own economic growth dynamic before the COVID-19 pandemic. As AMRO has noted in its reports, the ASEAN+3 region has expanded to become the largest economic bloc in the world, accounting for more than a quarter of world GDP (at market exchange rates) and almost 30 percent of global trade. The region contributed substantially to global demand and growth, especially in the past five years after the GFC, when the region contributed around half of world economic growth. In benign economic times, these intraregional linkages have resulted in positive spillovers, with growth in one economy spurring growth in another through linkages of trade, regional production networks and regional demand. AMRO has explored these in detail in the thematic chapters of its "ASEAN+3 Regional Economic Outlook 2018" and "ASEAN+3 Regional Economic Outlook 2019," with the latter featuring a thematic chapter on "Building Capacity and Connectivity for the New Economy."

In adverse economic times, however, intraregional linkages can turn into transmission channels of contagion and shocks. To be effective, policy responses must account for not only the direct impact of any shock but also the cumulative impact of negative spillovers. AMRO has therefore been tasked by ASEAN+3 members to move beyond country-specific macroeconomic surveillance to making region-wide assessments and benchmarking an individual country against its peers.

AMRO'S ERPD

The integration of AMRO's economic surveillance function and its support of the CMIM is exemplified in the ERPD Matrix. The matrix is an economic surveillance tool to both assess the macroeconomic and financial performance of ASEAN+3 member economies and assess a member economy's qualification for access to the CMIM-PL. It provides a comprehensive overview based on five key areas in member economies: external position and market access, fiscal policy, monetary policy, financial sector soundness and supervision, and data adequacy. The matrix also tracks member economies' performance over time through a quantitative scorecard of macro-financial indicators, which is benchmarked against peer economies, complemented by a suite of analytics and expert judgment (Ong and Gabriella 2020; AREO 2019).

The ERPD Matrix is key to AMRO's role in supporting the CMIM through its surveillance, and AMRO's contribution has been recognized by its stakeholders in ASEAN+3. The Joint Statement of the 22nd ASEAN+3 Finance Ministers' and Central Bank Governors' Meeting in May 2019 welcomed "the further progress made in improving the qualification criteria of the CMIM Precautionary Line by adopting the ERPD Matrix Scorecard as a qualification reference, which has been integrated into AMRO's surveillance work" (ASEAN+3 2019). The ERPD Matrix indicators are now integral to AMRO's economic surveillance at country and regional levels.

Indeed, AMRO went further than using the ERPD Matrix in its surveillance work. It provided a valuable service to its stakeholders by putting the matrix indicators on a database platform that is available to stakeholder authorities in ASEAN+3 member economies. AMRO also launched the AMRO

Regional Tracker for the ERPD Matrix Indicator Scorecard (ARTEMIS) platform, and member authorities could log into the system to access an interactive ERPD Matrix Scorecard and the data time series of ASEAN+3 member economies (AMRO 2019b). This system greatly facilitated information sharing between AMRO and its member economies as well as among member economies. Having seen a prototype of this system during my time in AMRO, I have witnessed how useful it is in gathering the updated key macro-financial indicators and enabling the benchmarking of any member economy's economic and financial performance against peer economies. The system's implementation has been very well received by authorities in the ASEAN+3 member economies.

COVID-19 AND AMRO'S SURVEILLANCE

The advent of the COVID-19 pandemic and the fluidity of the public health and economic situation in ASEAN+3 economies necessitated continual macroeconomic surveillance at a time when travel was greatly restricted. With the support and cooperation from the member economies, AMRO was able to continue with its annual country surveillance "visits" virtually, supplemented by interim virtual visits to keep abreast of the situation. Its latest country assessments are a public good to anyone who is interested and are readily accessible on its website.

AMRO also responded to the information needs of ASEAN+3 members on the COVID-19 pandemic through quickly repositioning its research resources to study the impact of the pandemic. It created "new pandemic-related products such as the COVID Monitor, a snapshot of the disease across the ASEAN+3 countries; the Turnaround Tracker, which highlights economic and market recovery trends; and the Pandemic Policies database, a comprehensive (daily) cross-country compilation of pandemic policies, including monetary, fiscal, financial and physical containment measures" (AMRO Annual Report 2020). This is testament to the ability of the surveillance function in AMRO to respond quickly to the information needs of its stakeholders.

In addition, AMRO continued its work on the interlinkages and spillovers among ASEAN+3 economies as part of its region-wide surveillance. It has shown prescience in picking the theme of "ASEAN+3 in the Global Value Networks" for the AREO in early April 2020, a month after the World Health Organization declared the COVID-19 outbreak a global pandemic. AMRO followed up on this important theme in its "ASEAN+3 Regional Economic Outlook 2021," considering the continuing challenges of COVID-19 in "Global Value Chains in the Post-Pandemic 'New Normal.'" AMRO's surveillance function fulfilled a need for timely macroeconomic surveillance in the ASEAN+3 region during the challenges of the pandemic. The quality and timeliness of its surveillance reports to its stakeholders, and the accessibility of these reports to the interested public, have come a long way from the early beginnings.

CONCLUSION

It has been suggested by some observers that there should be a division of labor in macroeconomic surveillance among the various international organizations, namely that global macroeconomic surveillance should be left to the IMF and AMRO should concentrate on the ASEAN+3 region. While AMRO's comparative advantage is certainly in the ASEAN+3 region, it cannot ignore what is happening in the global economy. Take, for example, the assessment of global capital flows prompted by U.S. monetary policy and the risk of external shocks and capital reversals. A full assessment of the risk to the ASEAN+3 region would surely need to comprise an assessment of the likelihood of U.S. monetary policy normalization rather than to take this assessment as "given" from, say, the IMF. Another example is the rise in global trade tensions, where major players are outside the ASEAN+3 region. Having an artificial division between what is "within" or "outside" the ASEAN+3 does not fit the reality of an integrated global economy.

There is certainly room for debate and comparisons among AMRO and other international organizations on macroeconomic surveillance assessments, and it could be that the assessments are broadly similar at the end of the day. Imposing an ex-ante boundary that AMRO should only focus on the ASEAN+3 economies and leave the global context to others, however, would not serve either AMRO or its stakeholders well. The COVID-19 pandemic has illustrated decisively the interconnectedness of the world and the spillovers from the global context to the ASEAN+3 economies.

Looking back from the early days to present, AMRO has come a long way in building its regional surveillance function in response to stakeholders' needs and in enhancing its macroeconomic surveillance capacity in support of CMIM implementation. In positioning itself as the region's "family doctor," AMRO will have to continually earn the trust from its stakeholders and its credibility on the global stage, through the quality, timeliness and relevance of its surveillance products. AMRO's track record so far bodes well for the future.

CHAPTER 4

LOCAL CURRENCY CONTRIBUTION TO THE CMIM PROJECT[32]

JUNKO SHIMIZU[33]

INTRODUCTION: AMRO AS A SURVEILLANCE UNIT IN EAST ASIA

As a surveillance unit, AMRO periodically conducts macroeconomic surveillance of member countries and publishes various reports, including annual reports and thematic studies, in addition to country surveillance reports. To differentiate its surveillance role from that of the IMF, AMRO has recently focused more on regional economic topics. It has also developed analytical frameworks and further enhanced forward-looking analysis, risk assessment and policy recommendations in its reports. For example, AMRO was one of the first international organizations to develop a simulation of a limited trade war between the U.S. and China in its "ASEAN+3 Regional Economic Outlook 2018."

AMRO also uses academic research to help develop its surveillance capabilities and to fulfill its broader mission of promoting financial stability among ASEAN+3 economies. This chapter focuses on one such collaborative research project, the Local Currency Contribution to the CMIM.[34] In 2019, AMRO initiated the project to explore the plausibility of local currency contributions to the CMIM and to examine its possible utility, based on regional integration and cross-border local currency use in the region. This was in response to a study group on promoting local currency usage, set up during the 23rd ASEAN+3 Finance Ministers' and Central Bank Governors' Meeting in September 2020. The project leveraged both AMRO's regional strengths and outside experts to address a question that was first raised by member countries. Thanks partly to this work, CMIM members agreed in 2021 to offer CMIM borrowers the option of drawing their swaps in local currency rather than in dollars.[35] Future regional research collaborations are expected to include surveillance measures as a focus, with the intention of further developing best practices in regional and national surveillance.

THE PLAUSIBILITY OF THE LOCAL CURRENCY CONTRIBUTION TO THE CMIM PROJECT

In the wake of the AFC, the ASEAN+3 finance ministers, at their meeting in Chiang Mai in May 2000, agreed to establish the CMI to provide U.S. dollar liquidity support through a network of BSAs,

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[32] From the AMRO Research Collaboration Program (https://amro-asia.org/local-currency-contribution-to-the-chiang-mai-initiative-multilateralisation/).

[33] Professor, Gakushuin University, Department of Economics.

[34] This brief discusses the project's thematic study published as AMRO 2019; for more details, see https://www.amro-asia.org/local-currency-contribution-to-the-chiang-mai-initiative-multilateralisation/.

[35] See https://www.amro-asia.org/joint-statement-of-the-24th-asean3-finance-ministers-and-central-bank-governors-meeting-may-3-2021-virtual/.

in addition to the existing ASEAN swap agreement that was in place among ASEAN member states since 1977. The outbreak of the GFC catalyzed ASEAN+3's efforts to further upgrade the CMI to the CMIM with a size of $120 billion in 2010. The CMIM was further enhanced to a size of $240 billion and was equipped with a crisis prevention function in 2014. AMRO was established in 2011 as the surveillance unit of the CMIM and was upgraded to an international organization status in 2016.

Every five years, ASEAN+3 members must jointly carry out a basic review of the CMIM's key terms and conditions to ensure it remains up to date and reflects its members current circumstances as well as global economic and financial conditions. In the first periodic review in 2018, ASEAN+3 adjusted the existing CMIM to institute co-financing with the IMF under the GFSN; it also clarified a few ambiguous provisions. CMIM, as a currency swap, provides "U.S. dollar" liquidity support in exchange for local currency (as substantial collateral) in response to urgent short-term U.S. dollar liquidity difficulties and/or balance of payment (BOP) difficulties of member(s). As approved by the CMIM decision-making body and entering into force in March 2021, a borrower can swap their local currency for the approved amount of U.S. dollars from lenders. Accordingly, the term "local currency contribution to the CMIM" means that lenders may contribute to the CMIM's liquidity pooling in the form of their local currency jointly with or separately from the current liquidity support currency, that is, the U.S. dollar. The borrowing country receives the local currency to address its urgent short-term liquidity difficulties and/or BOP difficulties.

Additionally, the amended CMIM Agreement of March 31, 2021 increased the IMF's delinked portion to 40 percent, from 30 percent of each member's maximum arrangement amount, and institutionalized the use of local currencies, in addition to the U.S. dollar, for CMIM financing on a voluntary and demand-driven basis. This brought the CMIM one step closer to being able to function effectively on its own, without the coordination or approval of the IMF, raising the importance of building effective regional surveillance based on cutting-edge analytical methods. The following sections summarize the rationale and conclusions of the "Local Currency Contribution to the CMIM" project, before returning to the relevance of collaborative research projects in general for the advancement of AMRO's surveillance functions.

RECENT REGIONAL INTEGRATION IN ASIA

ASEAN+3 is becoming increasingly integrated in terms of trade. It now accounts for around 29 percent of the world trade in goods, more than the EU (15 percent) and North America (14 percent) in 2018. Intraregional trade among ASEAN+3 economies has steadily increased to over $3.8 trillion, accounting for nearly 40 percent of its total trade in 2019. In terms of foreign direct investment (FDI) stock, the inward direct investment position from ASEAN+3 amounted to $3.2 trillion in 2019, more than double that of 2009. The ASEAN+3 share of inward FDI held by regional investors remained stable at around 45 percent of total inward FDI.

Despite high intraregional trade in ASEAN+3 countries, U.S. dollar usage as a key currency is still prevalent in regional trade and finance due to network externalities in using international currencies. From Bank for International Settlements and IMF data, the U.S. dollar's dominance as a key currency is confirmed in foreign exchange markets, in trade settlement and in the composition of regional foreign exchange reserves.

INDIVIDUAL COUNTRY DATA FOR TRADE SETTLEMENT

As suggested by the continued prevalence of the U.S. dollar, the share of the renminbi (RMB) and other Asian currencies in international settlements is still extremely low. According to Table 1, the share of the RMB in international settlement reported by SWIFT was 1.95 percent in April 2021, which slightly decreased from 2.07 percent in April 2015.[36] Other Asian currencies also have small shares, and this remains unchanged.

Table 1: Share of International Settlement Currency (Percentage)

Currency	April 2015	April 2021
USD	45.14	39.77
EUR	27.36	36.32
GBP	7.96	6.00
JPY	2.73	3.45
RMB	2.07	1.95
CAD	1.90	2.21
AUD	1.77	1.22
HKD	1.48	1.24
CHF	1.49	0.73
THB	1.02	0.83
SGP	0.94	1.05

Source: RMB Tracker (SWIFT, https://www.swift.com/ja/node/9501).

Table 2 shows the data disclosed by the Japanese Ministry of Finance (JMOF). Although the U.S. dollar is still dominant, particularly in imports, the shares of the Japanese yen (JPY) exceed the share of the U.S. dollar in exports to Asia and trade with the EU. For exports to Asia, the share of the JPY declined from 52.2 percent in 2015 to 45.2 percent in 2020, while the RMB's share increased from 1.7 percent to 4.3 percent. From a firm-level analysis based on the 2018 Research Institute of Economy, Trade and Industry survey in Japan (Ito et al. 2021), it is becoming more common for Japanese manufacturing firms to use Asian currencies for transactions within the region.

Table 3 presents data disclosed by the Bank of Korea. In Korea, local currency usage is increasing in its regional trade but to varying degrees across members. The U.S. dollar's share in global exports and imports in Korea was around 80 percent; in trade with Japan, use of the JPY exceeded that of the U.S. dollar, and the share of the South Korean won (KRW) held at around 5 percent. In Korean trade with China, the U.S. dollar's share declined below 90 percent in 2020, while the shares of both the RMB and KRW increased significantly. The KRW's share also increased from 18.9 percent in 2015 to 27.0 percent in 2020 in imports from the EU.

[36] See the RMB Tracker at https://www.swift.com/ja/node/9501.

Table 2: Share of Trade Settlement Currency: Japan (Percentage)

	World		Asia		USA		EU	
Export	**2015**	**2020**	**2015**	**2020**	**2015**	**2020**	**2015**	**2020**
USD	53.9	48.5	43.2	47.3	88.3	87.4	13.4	10.3
JPY	**35.4**	**37.7**	**52.2**	**45.2**	**11.6**	**12.5**	**30.1**	**33**
EUR	5.5	6.2	1.0	1.1			49.6	55.8
RMB	**0.8**	**2.5**	**1.7**	**4.3**				
THB			**1.0**	**1.1**				
Others	4.4	5.1	1.9	2.1	0.1	0.1	6.9	0.9
Import	**2015**	**2020**	**2015**	**2020**	**2015**	**2020**	**2015**	**2020**
USD	69.8	64.8	73.5	68.0	77.1	73.7	10.2	11.6
JPY	**23.8**	**27.8**	**22.9**	**27.1**	**21.9**	**25.6**	**58.1**	**57.1**
EUR	3.7	3.8	0.3	0.4	0.9	0.4	28.2	28.3
RMB	**0.8**	**1.3**	**1.5**	**2.5**				
THB			**0.9**	**1**				
Others	1.9	2.3	1.8	2.0	0.1	0.3	3.5	3.0

Source: Ministry of Finance, Japan (https://www.customs.go.jp/toukei/shinbun/trade-st/tuukahappyou.htm).

Table 3: Share of Trade Settlement Currency: Korea (Percentage)

	World		ASEAN		Japan		China		USA		EU	
Export	**2015**	**2020**	**2015**	**2020**	**2015**	**2020**	**2015**	**2020**	**2015**	**2020**	**2015**	**2020**
USD	83.1	83.6	96.8	96.1	44.9	45.8	93.8	87.7	99.0	98.3	45.8	41.5
JPY	**2.8**	**2.9**	**0.5**	**0.3**	**49.2**	**48.3**	**0.6**	**1.1**	**0.1**	**0.3**	**0.2**	**0.4**
EUR	5.0	6.2	0.3	0.4	0.4	0.4	0.3	0.4	0.1	0.3	46.8	49.4
KRW	**2.4**	**2.5**	**1.1**	**1.3**	**5.5**	**5.4**	**2.1**	**3.3**	**0.8**	**1.1**	**2.7**	**2.8**
RMB	**1.0**	**2.0**					**23.1**	**7.4**				
Others	2.7	2.8	1.3	1.9	0.0	0.1	0.1	0.1	**0.0**	**0.0**	**4.5**	**5.9**
Import	**2015**	**2020**	**2015**	**2020**	**2015**	**2020**	**2015**	**2020**	**2015**	**2020**	**2015**	**2020**
USD	81.8	78.1	95.7	92.9	46.3	38.0	93.7	88.9	92.6	89.1	35.7	25.6
JPY	**5.5**	**5.9**	**0.9**	**1.4**	**48.3**	**54.5**	**0.8**	**0.8**	**0.2**	**0.3**	**0.4**	**0.6**
EUR	6.3	6.5	0.8	1.0	0.8	1.2	1.0	1.0	1.5	1.4	41.7	43.8
KRW	**4.8**	**7.0**	**1.8**	**3.7**	**4.4**	**6.1**	**1.5**	**2.7**	**5.5**	**9.1**	**18.9**	**27.0**
RMB	**0.6**	**1.5**					**2.7**	**6.4**				
Others	1.0	1.0	0.8	1.0	0.2	0.2	0.3	0.2	0.2	0.1	3.3	3.0

Source: Bank of Korea (http://ecos.bok.or.kr/flex/ClassSearch-e.jps?langGubun=E&topCode=000Y215).

Table 4 shows the data disclosed by the Bank of Thailand. The share of Thai baht (THB) use in trade, especially with ASEAN and Japan, has steadily increased in recent years. In terms of global trade, the U.S. dollar share gradually decreased to 74 percent in 1Q 2020, while the share of THB steadily increased to 17.1 percent in exports and 8.9 percent in imports in 1Q 2021. The increase in the THB's

Table 4: Share of Trade Settlement Currency: Thailand (Percentage)

	World		ASEAN		Japan		NAFTA		EU	
Export	**Q1/2015**	**Q1/2021**	**Q1/2015**	**Q1/2021**	**Q1/2015**	**Q1/2021**	**Q1/2015**	**Q1/2021**	**Q1/2015**	**Q1/2021**
USD	77.9	74.1	71.9	70.1	57.2	54.9	92.3	91.5	64.8	68.9
THB	**12.3**	**17.1**	**22.4**	**26.7**	**16.0**	**19.7**	**5.1**	**7.4**	**10.2**	**11.0**
JPY	**5.3**	**3.3**	**2.9**	**1.0**	**26.6**	**25.2**	**2.3**	**0.4**	**4.8**	**0.9**
EUR	2.3	2.8	0.5	0.6			0.2	0.3	16.9	17.3
SGD	**0.3**	**0.2**	**1.0**	**0.7**						
RMB	**0.1**	**0.4**								
Others	1.8	2.1	1.3	0.9	0.2	0.2	0.1	0.4	3.3	1.9
Import	**Q1/2015**	**Q1/2021**	**Q1/2015**	**Q1/2021**	**Q1/2015**	**Q1/2021**	**Q1/2015**	**Q1/2021**	**Q1/2015**	**Q1/2021**
USD	79.5	77.5	83.9	81	48.8	44.3	93.4	88.2	43.8	35.6
THB	**7.3**	**8.9**	**11.8**	**14.6**	**12.4**	**18.3**	**4.5**	**7.6**	**13.8**	**17.5**
JPY	**7.1**	**6**	**1.2**	**1.8**	**38.2**	**36.7**	**0.4**	**0.5**	**0.5**	**1.7**
EUR	3.9	4.5	0.5	0.8			0.8	2.8	35.5	39.7
SGD	**0.6**	**0.4**	**1.8**	**1.1**						
RMB	**0.2**	**1.6**	**0.5**	**0.6**						
Others	1.4	1.1	0.3	0.1	0.6	0.7	0.9	0.9	6.4	5.5

Source: Bank of Thailand (https://www.bot.or.th/English/Statistics/EconomicAndFinancialExternalSector/Pages/StatInternatonalTrade.aspx

share is remarkable, particularly in Thai trade with ASEAN countries. The THB share in 1Q 2021 was 26.7 percent for exports and 14.6 percent for imports with ASEAN countries.

For China, according to the People's Bank of China's "RMB Internationalization Report 2020," the cross-border RMB settlement in 2019 hit a record high of 19.67 trillion yuan ($2.83 trillion), increasing by 24.1 percent year on year.[37] According to the IMF, the RMB share of global foreign exchange reserves hit a record high of 2.02 percent as a global currency in the first quarter. This was the highest level since the fund first published details of RMB reserve assets in 2016. It has been reported that around 80 central banks and monetary authorities worldwide have incorporated RMB into their foreign exchange reserves (Choi 2022).

PROMOTING LOCAL CURRENCY USAGE IN THE REGION

The project's study concluded that reliance on the U.S. dollar as the major currency for intraregional trade and investment means that the region will continue to be exposed to U.S. dollar-related policies and problems. The negative impacts of such exposure have been seen in the form of U.S. dollar shortages after the closure of Lehman Brothers, the volatile capital flows from excess liquidity created by quantitative easing policies and the current upward interest rate path of the Federal Reserve. Therefore, greater use of local currency in intraregional trade and investment would better shield the region from these external shocks. However, local currency usage is unlikely to happen automatically due to entrenched market-determined preferences. Therefore, policy support by authorities is important for promoting local currency use.

[37] See https://www.caixinglobal.com/upload/PBOC-2020-RMB-International-Report.pdf.

The most significant development shaping the future usage and holding of global currencies involves the increasing role of the RMB in the global financial system. This development was solidified when the RMB was included in the basket of SDR currencies in October 2016. China has been active at the forefront of this shift, setting up many offshore clearing banks and direct currency exchange markets throughout the world, including Asia, as part of its policy of RMB internationalization together with its signing of many bilateral currency swap agreements.

ASEAN countries also promote their own currency usage in trade with neighboring countries. The Local Currency Settlement Framework (LCSF) provides a good model for promoting cross-border local currency usage. The LCSF between Malaysia and Thailand began operating in March 2016 and was expanded to cover direct investment at the beginning of 2018, when Indonesia and the Philippines joined. Promoting the use of local currencies will only work if the transaction cost becomes low enough for customers. Therefore, the LCSF needs to be developed alongside efficient currency exchange markets.

BSAs have not only encouraged local currency usage in the region but also complemented the CMIM. For instance, the BSAs between the JMOF and certain ASEAN central banks have a similar objective to the CMIM (addressing BOP difficulties). Since 2017, the JMOF has completed a new round of negotiations with Singapore, Thailand, Malaysia, Indonesia and the Philippines, which allows the Japanese yen to be another choice in addition to the U.S. dollar. Other BSAs, denominated in local currencies, are mainly focused on promoting bilateral trade and investment, maintaining financial stability or providing liquidity support to financial institutions. The People's Bank of China also signed BSAs with other Asian countries. These BSAs have played an important role in promoting the use of local currencies as well as providing liquidity in times of financial stress, which also justifies the demand for local currencies, both in times of peace as well as crisis.

CONCLUSION

The thematic study of the local currency contribution to the CMIM project provides a good example of the ways in which AMRO is engaging with academic experts to develop its capabilities and to create frameworks for thinking about issues that will affect regional financial stability in the future. Collaborative research projects are an effective way to expose AMRO personnel to novel ideas and issues that are not currently captured by surveillance products as they offer both flexibility and outside perspectives to AMRO and CMIM leaders.

In this case, the collaborative research was driven by growing interest among CMIM member countries in the possibility of shifting from a dollar-based model to a local currency one. The potential for the use of local currencies in trade and finance has been gradually increasing as ASEAN+3 economies have become more integrated. The rising trend in cross-border holdings of assets and liabilities also shows that financial integration has progressed substantially in the past two decades. Notably, individual countries' data on the currency share of trade settlement clearly show an upward trend of Asian local currency usage despite the negative effects of the COVID-19 pandemic.

The study concluded that local currency swaps could contribute to supporting regional financial stability. It noted that if local currencies were to be used in some trade and finance settlements, members may need local currencies to address BOP and/or short-term liquidity difficulties, in which a country cannot obtain sufficient affordable financing to meet any international payment obligations during crisis periods. Countries facing BOP difficulties that included significant local currency-denominated obligations would benefit from directly accessing local currencies for CMIM liquidity support rather than incurring the additional costs and risks of swapping U.S. dollars into the desired currencies. The study found that there is substantial demand for local currencies in foreign reserves provided that the basis for the “four measures” (three months of imports, 100 percent of short-term debt, 20 percent of M2 (a measure of money supply) mirroring the IMF rule) may properly capture multiple motives for holding reserves by each economy.[38] It also appears that if some local currencies are not needed by the borrowing country due to their instability, it is inefficient to use local currencies because the borrower needs to exchange local currencies for the currencies needed, for example, the U.S. dollar. In such a case, when local currencies are unstable, the cost is likely to be large. As local currencies become more widely used in the region and a greater need for local currencies in the CMIM is confirmed, an enhanced design of more concrete protocols, such as some contribution portion, may be required.

The promotion of local currency usage is one of the study groups set by the 23rd ASEAN+3 Finance Ministers' and Central Bank Governors' Meeting in September 2020; this has been adopted by the amended CMIM Agreement on March 31, 2021, which institutionalizes local currency contributions in the CMIM. Further data disclosure of international settlement currency by each Asian country is needed to correctly grasp which currencies are used in cross-border transactions in the region. The collaborative research study provided a framework for analyzing the usefulness of dollars versus local currencies in the event that a CMIM member needed to draw on funds to address payments issues. Given the growing regional interest in conducting cross-border trade and investment in local currencies, it will be essential for AMRO to incorporate this framework into its own surveillance functions.

By building its own distinct perspectives and areas of expertise on regional economies, AMRO can use collaborative research programs to differentiate its surveillance activities from those conducted by the IMF. It can also further solidify its influence and reputation as an independent surveillance unit by several additional measures. First, it could publish data and information in a timely manner and more often than the IMF. It is also able to obtain information in local languages more quickly than the IMF and can rapidly translate this information into English and publish it as needed. Second, AMRO should emphasize continued focus on more Asian emerging economies, such as the CLMV (Cambodia, Laos, Myanmar and Vietnam) countries, which require considerable local knowledge to analyze effectively. AMRO has some advantages in research on these neighboring countries because of staff members who have a strong connection with local governments and firms.

Third, AMRO should periodically conduct thematic questionnaire surveys to determine future areas of concern for regional economies, which will be invaluable for keeping surveillance ahead of emerging trends. As in the case of the local currency contribution to the CMIM project, AMRO can concentrate its thematic research on current topics that are important in the region, which are more policy-oriented and useful for future policy decisions. Collaborative efforts should incorporate the insights and knowledge of multiple experts and stakeholders, including the ADB and financial and academic institutions in the region. They will also be useful for improving information available more broadly. For example, following the model of the ADB's AsianBondsOnline, which provides a one-stop source of information on bond markets in emerging East Asia, AMRO could create an informational website centered around emerging Asian currencies to serve as a reliable resource for information on Asian currencies. This would ensure that AMRO officials could have up-to-date and accurate information on the currency needs of its member countries, which would be invaluable in the event that one needs to draw on CMIM funds.

[38] See “Chapter 4: Plausibility of Local Currency Contribution to the CMIM” in AMRO (2019).

CHAPTER 5

CALIBRATING SURVEILLANCE TO MEMBER COUNTRY NEEDS

MARTIN EDWARDS[39]

One of the challenges of the study of economic surveillance is that it is rarely comparative. As a result, scholars and observers learn insights from some international organizations with some practices, and these insights do not migrate terribly well to other situations. This chapter attempts to remedy these deficiencies. There are certainly limits to what softer instruments like surveillance and peer review can accomplish, and it is important to be mindful of these constraints. This is a mechanism that is deliberately chosen by statesmen, and that part of the limited influence of peer review reflects a conscious choice. This should not, however, consign us to pessimism. Developing a better understanding of the surveillance practices of international organizations and how they changed over time can help us to better map out constructive policy prescriptions.

This chapter is intended to build on the IMF's experience as an avenue to provide useful policy recommendations. AMRO has made impressive strides since its creation, but the potential for learning from different contexts about how its work can be more fruitful for member countries over the next decade should not be overlooked. The chapter is divided into four parts. I start briefly with a focus on defining calibration and then discuss the IMF's experience with calibration over time. I next use the timing of the IMF Article IVs and AMRO's annual consultation reports to discuss four recent cases. Finally, I conclude with an appraisal of lessons for AMRO in the post-COVID era.

TOWARD A BETTER UNDERSTANDING OF CALIBRATION

One of the challenges with a project like this is the simple fact that surveillance has been intentionally offline at the IMF due to the pandemic. With over a hundred countries writing to the Fund seeking potential assistance, it introduced a six-month pause in country surveillance last year, though this hiatus has since ended. A second challenge is that the pandemic has slowed progress on the IMF's forthcoming "Comprehensive Surveillance Review," which limits what can be said about the IMF's own assessment of surveillance. (The plan was to move to a five-year timeline for a surveillance review). I draw from previous surveillance reviews (from 2011 and 2014) and the IMF's guidance notes and interim reviews (from 2015 and 2018) in this account.

As this chapter is fundamentally about how the IMF has "calibrated" surveillance, I should say a few words about what calibration means in practice. The idea behind surveillance is that the Fund would impartially view and offer comments on the state of a country's economic policy. Part of the idea behind delegating this authority in the first place lies in the belief that an international organization

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can be a neutral third party (Abbott and Snidal 1998). In practice, however, the Fund has struggled in balancing its role as being a "trusted advisor" and a "relentless truth teller," specifically regarding advanced economies. This finding is supported in the Fund's own documents (IEO 2011; IMF 2014a) as well as in empirical research evaluating IMF surveillance and forecasting (Fratzscher and Reynaud 2011; Dreher, Marchesi and Vreeland 2008; Aldenhoff 2007). This suggests the need to be wary of advancing a definition of calibration that implies that the Fund's assessment becomes an endorsement of a country's economic policies, whatever those are.

Here, I use three different lenses to focus on the concept of calibration. First, does the surveillance report present information in ways that is useful to member countries? Previous work on evaluating IMF surveillance has used this as a benchmark, but here I focus more on how information is presented rather than the policy advice (Momani 2006). Different international organizations present information very differently (Edwards 2012), and it is worth noting that this focus on how information is presented helps circumvent some of the problems noted above. Second, does the surveillance report develop advice that is tailored to country experiences, or does the Fund view each country regardless of context as essentially the same?[40] Finally, is there evidence of innovation and focusing on shared challenges across member countries? In the section below, I recap the Fund's experience with reassessing and recalibrating surveillance.

REASSESSING AND RECALIBRATING SURVEILLANCE AT THE IMF

In in its evaluations of surveillance, the Fund has tried to be both increasingly public in its evaluation and increasingly comprehensive.[41] The "2014 Triennial Surveillance Review" (TSR) was expansive in approach, with five background papers written by outsiders and three external commentaries as well as a review of the entire package by a team of advisors and an action plan to address the findings. All the documents were made public once the review was concluded. This was an incremental improvement on the 2011 TSR. What was essential for the information gathering was developing a series of surveys of executive board members, Fund mission chiefs and country authorities. This allowed all constituents to weigh in, which served to legitimate the exercise, but more fundamentally, it also allowed staff to ascertain if these constituencies viewed surveillance differently. The 2014 TSR focused on five key areas: developing greater clarity on risks and spillovers, bringing macro-financial issues more fully into surveillance, developing greater consistency on structural policy advice, improving the independence of advice and ensuring clear communication.

The second goal of the surveillance review exercise was to move from findings to actionable items for staff. This meant, in practice, requiring that every Article IV where possible include a section on risks and spillovers, and the risks were to be presented clearly in a Risk Assessment Matrix (known in Fund parlance as a RAM). Also at the same time, Fund staff increasingly developed a section for Article IVs talking about the status of past advice and whether the IMF's recommendations were followed.[42] The goal was to tailor IMF advice to the specific needs of member countries. An interim stock-taking exercise in 2018 benchmarked progress toward implementing previous goals as well as setting the stage for the "Comprehensive Surveillance Review." Based on surveys of mission chiefs and executive board members, it found that surveillance had become more tailored to country needs.

[40] This was a key criticism of the IMF during the AFC in 1997 (Feldstein 1998; Stiglitz 2002), and IO scholars view that style of engagement as pathological (Barnett and Finnemore 1998).

[41] This section builds on Edwards (2018).

[42] This is an instance in which the IMF has borrowed from the OECD, which has used this feature in its peer review for many years (Edwards 2012).

Surveillance had become tailored in an innovative new fashion through the development of specific pilot programs for Article IVs. These were aimed at building new knowledge about areas that have not been a previous focus of surveillance. The key frame used to justify this work was "macro-criticality," where the matter in question had the potential for affecting the macroeconomy, and the IMF staff investigated it in the course of the Article IV. The Interim Surveillance Review in 2018 discussed nine pilot programs: fiscal space assessment, macrostructural, domestic revenue mobilization, international taxation, inequality, gender, energy/climate and infrastructure. One pilot program on macro-financial policy was fully mainstreamed into surveillance by the executive board in 2018.

Taken as a whole, there is evidence of calibration in all three senses noted above. The Fund has made its surveillance distinctive by providing more useful information—as noted in the work on spillovers, risks and past advice. Notably, these matters become focal points in the staff report, so it is not merely a matter of IMF staff doing more homework but also conveying that information in a sustained manner. The Fund's surveillance has also become more tailored to member countries through the discussion of risks and past advice. And finally, developing the new Article IV pilot programs, which have served to build on Fund discussions, represents focusing on shared challenges across member countries. I will return to this theme in the last section to talk about some of the lessons learned that are applicable to AMRO. I now turn to assess the distinctiveness of AMRO's advice through a paired comparison of surveillance documents.

HOW DIFFERENT IS AMRO? EVIDENCE FROM FOUR COUNTRY CASES

One way that the surveillance of international organizations can have added value is by conveying a distinctive message. This is especially an important concern in Asian economies. Harmed by IMF policy advice in 1997 and 1998, Asian country authorities were more likely to report skeptical views of the value of IMF surveillance in background surveys for the 2014 TSR (IMF 2014b). While these sorts of views were doubtlessly a source of many of the reforms noted above, they raise the broader question of whether AMRO's surveillance of countries is distinctive.

To answer this question, I reviewed the press releases for Article IV consultations and AMRO's annual consultation reports for four countries: Cambodia, Indonesia, Japan and Thailand. Focusing solely on the press releases for each country keeps the focus on the "topline" findings of each consultation, which represents the views of the organization's respective leadership rather than the staff.[43] In all cases, the reviews were conducted by each organization within three months of each other. This provides a window to evaluate the distinctiveness of the advice that is given to each country. These results are summarized in Table 1.

Taken as a whole, there is a lot more similarity in the views of the IMF and AMRO than there are differences. Where differences exist, they are largely in emphasis or presentation rather than in substance. Since each institution has a surveillance mandate to focus on stability, in some sense findings that are closely parallel are not surprising. But the perspective of each institution is different, as one institution has a more regional focus and the other is global. This suggests that an interesting route forward lies in greater differentiation. This would not only give AMRO more of a unique identity but also give its surveillance greater value. I return to this section below.

[43] Keeping this comparison only on the press releases makes sense as sometimes the messages are not always consistent (Breen 2012).

Table 1: Comparison of AMRO and IMF Topline Surveillance Documents

Country and Consultation Date	Key Challenge for Growth/Policy Recommendations in Fund Press Release	Key Challenge for Growth/Policy Recommendations in AMRO Press Release
Cambodia IMF: 12/6/2019 AMRO: 1/29/2020	EU expected to suspend preferential trade. Need to boost social and infrastructure spending, improve fiscal governance, moderate banking credit growth and strengthen financial oversight.	Dependent on trade with EU and China, and EU likely to end preferential trade. Main challenge is to enhance competitiveness and diversify economic base. Infrastructure, upskilling labor and strengthening institutions are essential.
Indonesia IMF: 2/12/2021 AMRO: 2/18/2021	Pandemic uncertainty is the key challenge for growth, but the government has the fiscal space to adjust if needed. Need to unwind exceptional fiscal measures over the medium term. Need to monitor banks and structural reforms for a green economy.	Pandemic uncertainty is the key challenge for growth. Additional medium-term policy space is needed in monetary and fiscal policy. Exiting from stimulus needs to be calibrated against advanced economies. There is a need for greater financial deepening in the coming years.
Japan IMF: 1/30/2020 AMRO: 3/11/2020	Demography is the key challenge for growth. There is a need for bank sector strengthening, gradual fiscal consolidation, health care improvement and social security efficiency.	External factors are the greatest source of downside risks. Must eliminate spending on nonessential projects, focus on fiscal sustainability and address labor shortage with work reforms and greater immigration.
Thailand IMF: 9/30/2019 AMRO: 12/26/2019	Risks stem from greater protectionism internationally. Consumption growth is weakening, so countercyclical spending is essential as well as increases in targeted social assistance.	U.S.-China trade war and a private investment slowdown is hampering growth prospects. Countercyclical fiscal policy is needed. Aging population and declining fertility means social security system needs strengthening.

Sources: Cambodia: IMF (2019b; AMRO 2020a); Indonesia: (IMF 2021; AMRO 2021); Japan: (IMF 2020; AMRO 2020b); Thailand: (IMF 2019a; AMRO 2019).

TOWARD MORE CALIBRATED AMRO SURVEILLANCE: A ROAD FORWARD

So far, I have examined changes in IMF surveillance through the lens of calibration in three different senses: through the presentation of information, through learning from country contexts and through shared challenges. Below, I use these three areas of focus to suggest policy recommendations for the future shape of AMRO surveillance.

INFORMATION

AMRO has come very far in a few short years, with the first annual consultation report coming out in 2017. It has created and sustained a system for engaging with member countries from the ground up, and it has continued to train and expand staff in the process. This is an impressive achievement. But it is worth stressing that AMRO is a regional organization, not a global one, and as it moves into maturity, it should look for areas of distinctiveness where it has a unique voice.

In terms of presentation of information, AMRO already has a well-developed methodology for country benchmarking as part of the ERPD (Ong and Gabriella 2020). Developing new ways to apply this methodology and use it in annual consultation reports would make AMRO a unique source for go-to information on regional comparisons. Country leaders would be better equipped to propose policy reforms if they had better knowledge of how their country stacked up with respect to neighboring countries. To use a few themes from Table 1, the challenge is not merely to strengthen financial oversight, healthcare or social security. It is also to learn best practices from neighboring countries. To that end, more detailed use of scorecards and heatmaps can help to encourage that learning.

LEARNING FROM COUNTRY CONTEXTS

The review of the annual consultation reports clearly shows there is a real focus on risks in AMRO's surveillance. But at the same time, the comparison in Table 1 suggests there is room for improvement here. A regional organization should have different advice than that of the IMF. Closer ties to member countries should give it an informational advantage. The IMF has made progress here precisely because its review processes have been both inclusive and public. AMRO can learn more and develop an appropriate strategy for the coming years by conducting a review of its surveillance along the lines of that of the IMF. Different models exist for doing this, and the advisory panel could be empowered along these lines as it is already functionally independent from the director and staff. Developing the capacity to learn more about how well surveillance is perceived can open fruitful avenues for reforms in the coming years.

SHARED REGIONAL CHALLENGES

The pandemic has upended everything globally, and AMRO has been up to the challenge of adapting its analytical capacity to these unprecedented times. From benchmarking national policies to combat the pandemic to surveying individual attitudes toward vaccination to outlining the goals of economic policies in the "new post-COVID normal," AMRO has used the knowledge and insight of its team to provide additional information to policymakers. Though driven by tragedy, its response to COVID should provide ample opportunity to reflect on how it can continue to focus on shared regional challenges. Demography, immigration policy, strengthening social safety nets and moving toward a green transition are challenges that all member countries will face in the coming years. Building on the pandemic response can provide a useful template for AMRO to develop similar capacity to address these common constraints that all members will face in the coming years.

CHAPTER 6

RFAS IN THE GFSN: SURVEILLANCE AT THE AMF AND THE EFSD

BARBARA FRITZ[44] AND LAURISSA MÜHLICH[45]

This chapter compares surveillance mechanisms in two RFAs that have been less intensively examined than others: the Arab Monetary Fund (AMF) and the Eurasian Fund for Stabilization and Development (EFSD).

REGIONAL FINANCIAL ARRANGEMENTS IN THE GFSN

The role of RFAs in the GFSN is more than often overlooked. In Mühlich and Fritz (2018), we asked about the role of RFAs in the GFSN, puzzled by the observation that they were drawn on less in response to the financial crisis than in previous years, despite intensified financial distress that emerging markets and developing economies (EMDEs) also experienced. What determines the use of the regional element? We compiled a dataset that covers the four major RFAs between EMDEs, comprising all together 50 member countries, which is around one-third of all EMDEs in the world. Two of these RFAs were created in the 1970s: the Latin American Reserve Fund (FLAR) and the AMF. Both RFAs are rather small compared to two more recent RFAs. One of the more recently founded mechanisms is the very well-known CMIM, with a large volume of $240 billion, and the EFSD, with $8.5 billion.

We analyzed the 50 member countries of these four RFAs as well as how and when they accessed one of the elements of the GFSN from the RFAs' founding until 2015. In addition, we identified about 400 cases of emergency financing through one of the three elements of the GFSN, i.e., the IMF, RFAs and BSAs. For each case of emergency financing, the dataset allowed us to observe the other options a country had at hand when it was drawing liquidity from one specific GFSN element. It also allowed us to observe the institutional design of each emergency financing option available: the timeliness of provision, the volume available and the policy conditionality.[46]

The results of Mühlich and Fritz (2018) show that in terms of the number of financing agreements concluded with one of the three elements of the GFSN, RFAs are the most demanded element. RFAs were drawn on more than twice as many times as the IMF between 1976 and 2015 (221 versus 117 times). Those RFAs that already operated in the 1980s show a peak of use at that time but continued to be in frequent use over the whole period. BSAs, the third element, appear to be in frequent use only after the GFC (2008-09) (see Figure 6.1).

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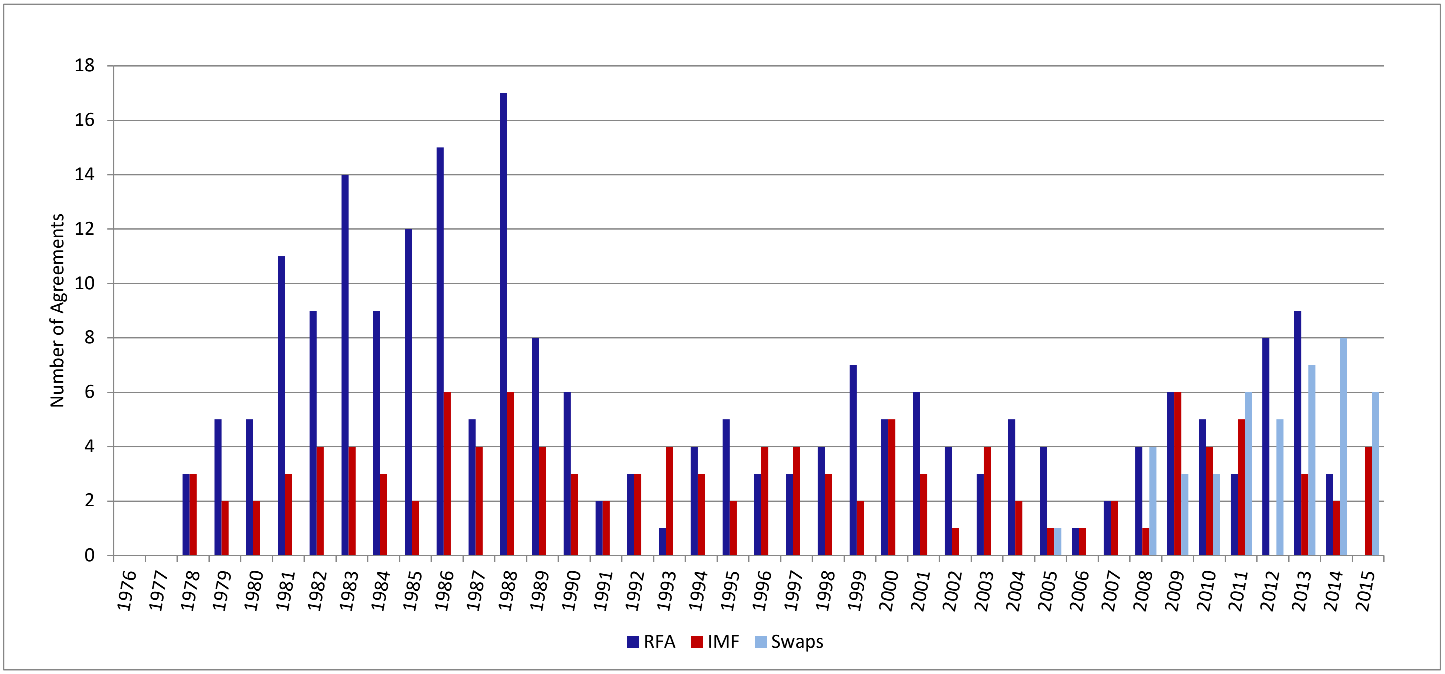
[46] The criteria for comparing the different options of liquidity supply in case of financial distress are taken from Mühlich and Fritz (2018), who employ the three generations of BOP crisis models to derive these criteria.

Figure 6.1: Number of Agreements with IMF, RFAs and Swaps



Source: Mühlich and Fritz (2018).

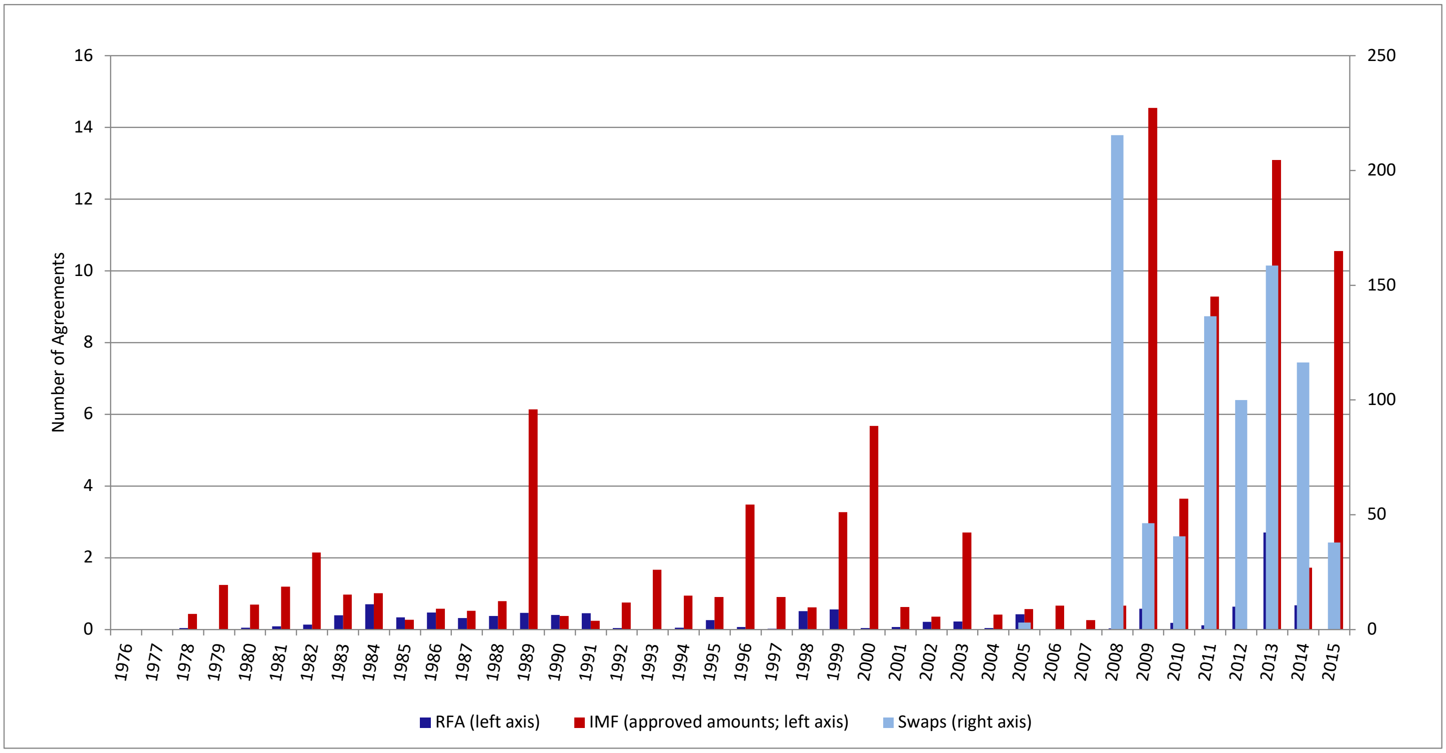
However, when we investigate the volumes disbursed, the picture changes dramatically (see Figure 6.2). Despite being the most demanded element of the GFSN, in terms of credit size, RFAs turn out to be rather marginal at the global level, having provided crisis finance of only about $11.7 billion, compared to $94 billion provided by the IMF over the same time. Until the series of emerging markets crises at the end of the 1990s, RFAs could provide volumes similar to the IMF at least in some years, but since then, the IMF successively increased its financing volume. More important than the IMF, however, is the appearance of BSAs between central banks during and after the 2008-09 financial crisis. BSAs are by far more voluminous than both RFAs and the IMF (total of $1.16 trillion). Most swap lines (94 percent) were concluded after 2008 ($1.07 trillion), with a volume about 20 times higher than IMF disbursements ($53 billion) since then.

The picture again changes when looking at the relative importance of RFAs for each member country. First, Mühlich and Fritz (2018) find that RFAs continue providing a potential safety net for around one-third of their members. Even if RFAs by far account for the lowest disbursed emergency financing volume overall, about one-third (16 out of the 50 countries in the sample) have a regional access limit that is equal to or more than 80 percent of their IMF access limit of up to the short-term accessible 200 percent of their quota per year.[47] So, surprisingly, despite their small relative size within the GFSN, for one-third of the—mostly small—countries, their regional fund is not too small compared to the IMF.

In the significantly changed context since the GFC, we find today's GFSN to be not a global but a structurally and geographically scattered net, whose full options are not equally available to all countries. Mühlich and Fritz (2018) further find that differences in the usage of the elements of the GFSN concern not only volume, as discussed above, but also timeliness and policy conditionality. BSAs and RFAs can disburse emergency liquidity very quickly compared to the IMF, even if the latter sped up its procedures over time. BSAs come without conditionality, while most RFAs and the IMF condition emergency financing upon a reform program to be implemented. Such differences are important

[47] In accordance with the time period of the data studied, the IMF access limit is based on country access before the 15th general quota increase.

Figure 6.2: Liquidity Provision by IMF, RFAs and Swaps (in USD billion)



Source: Mühlich and Fritz (2018).

to consider when analyzing the adequacy of the GFSN for different countries with different financing requirements. Current inequalities in the GFSN preclude some countries from having the same options to choose as others.

Mühlich and Fritz (2018) find a small and privileged group of small countries (eight out of 50) that can freely select among the three examined options of the GFSN to get sufficient liquidity to tackle their crisis by an RFA, a BSA and the IMF. The authors also find a larger group that is still small enough to find enough financial liquidity at the regional level, so they can choose between their RFA and the IMF but have not been offered any BSA. A third group of countries is too big for the RFA but had a BSA at hand as an alternative to the IMF. Finally, the authors identify as the largest group a set of RFA member countries that are too big for the regional element and at the same time had no BSA at hand, so they could only resort to the IMF. Most countries had only access to the conventional ex-post conditional IMF programs; only two countries in the sample have been eligible for the more flexible and more recently introduced ex-ante conditioned IMF facilities.

GOVERNANCE AND SURVEILLANCE: THE CASES OF THE AMF AND THE EFSD[48]

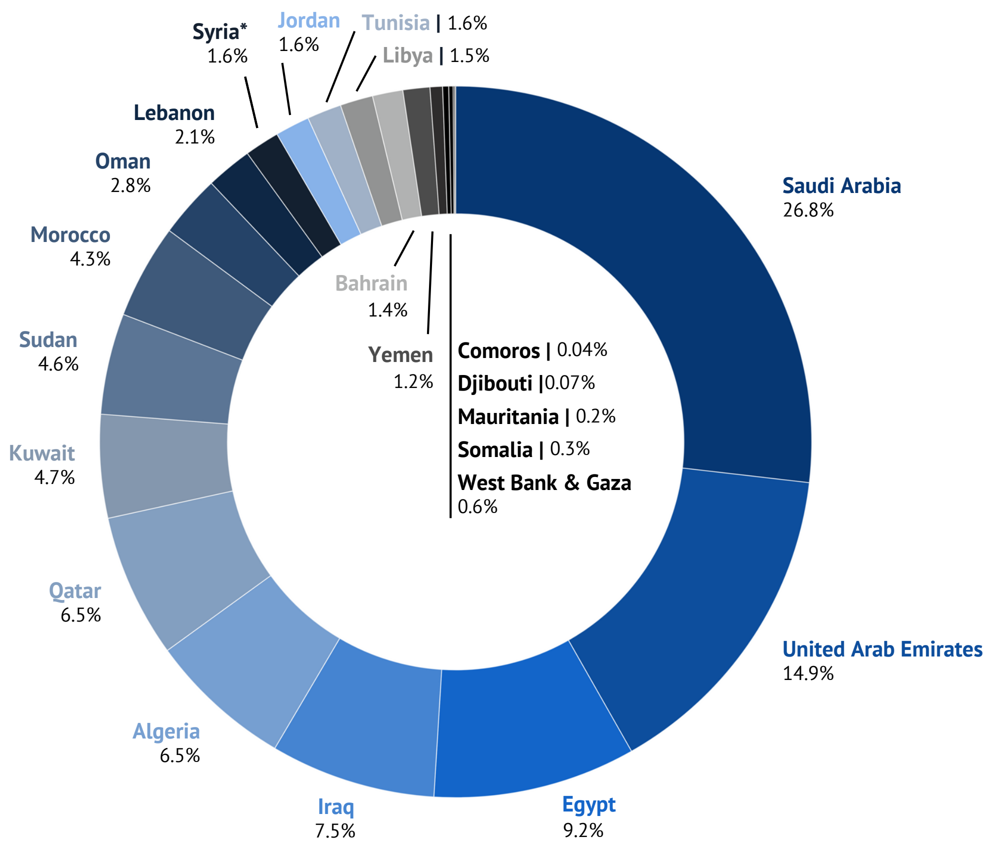
Based on the findings of the examination of the whole dataset, we now exemplify the influence of governance mechanisms and surveillance rules by taking a closer look at the AMF and the EFSD (for a more comprehensive overview, see Mühlich and Fritz 2021). Scholarly literature on these two

[48] This governance structure may well be affected by hegemonic aspirations of the Russian Federation as the regionally dominant country. However, it is beyond the scope of this brief to provide careful analysis of the political economy behind this regional financial mechanism and its embeddedness in the political and military Eurasian project, which also became visible in the collective military intervention in Kazakhstan in January 2022 to fight social unrest by the Collective Security Treaty Organization, a Russia-led military alliance composed of exactly the same member countries as in the EFSD (see also Gast 2021).

RFAs is remarkably thin compared to the rather well-researched FLAR and CMIM (IMF 2017; Volz and Caliari 2010; Ocampo 2006; Corm 2006). Therefore, we include a short introduction into those RFAs as these cannot be completely detached from the way the mechanisms are governed and provide surveillance.

Twenty-two member countries own the AMF, which was founded out of the League of Arab Nations in 1976. The AMF has multiple objectives—among others, to provide liquidity in times of BOP deficits and for financial system reforms in a member country (AMF n.d.). Out of the members, three major oil-exporting countries stand out in terms of absolute and relative GDP size—Saudi Arabia, United Arab Emirates and Egypt—while most of them are rather small in terms of relative GDP share (see Figure 6.3). Due to the fund's relatively small size (its subscribed capital is equivalent to $2.7 billion), only two of the 22 countries find sufficient liquidity at the AMF, compared to their IMF access limit.

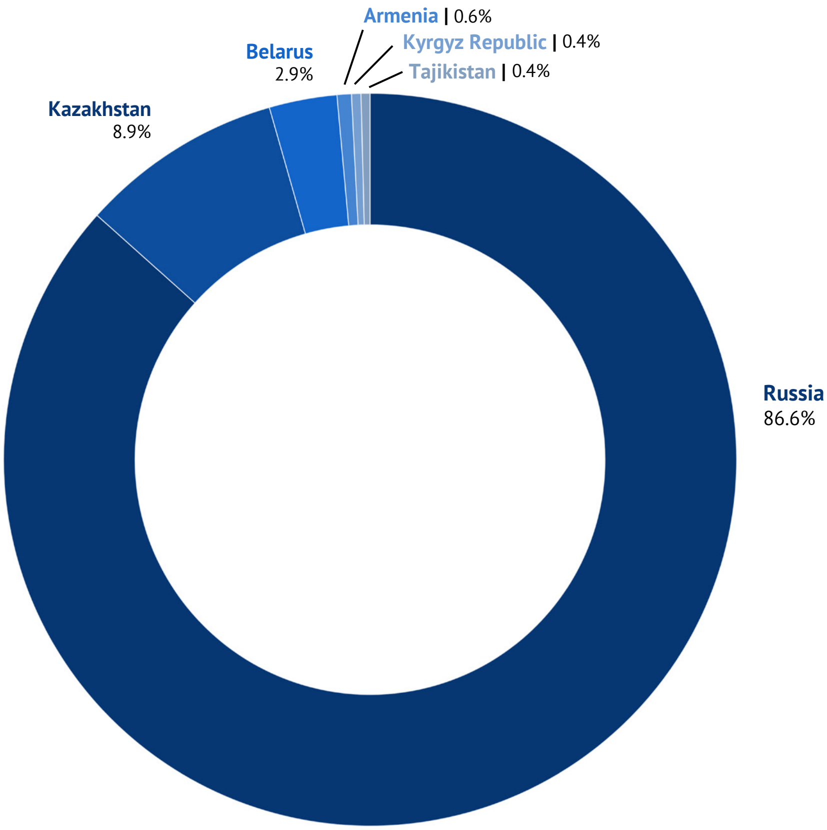
Figure 6.3: AMF (Share of Regional GDP)



Source: Authors' compilation (2019).

This is different in the EFSD, which was set up by a group of only six former Soviet Union members in 2009 in response to global financial volatility in and after the GFC. Its aims range from short-term liquidity provision to long-term investment funding. As Figure 6.4 shows, Russia clearly dominates this mechanism in terms of absolute and relative GDP size. With a volume of $8.5 billion subscribed capital, it provides sufficient emergency liquidity for three of the six members, compared to their IMF country access limit (see above).

Figure 6.4: EFSD (Share of Regional GDP)



Source: Authors' compilation (2019).

When we compare the governance mechanisms of these two RFAs, we first find that voting power in the AMF is rather equally distributed as each member holds a fixed share of votes, plus a relative share, so that the three biggest member countries, Saudi Arabia, Algeria and Iraq, concentrate less than 40 percent of overall votes. In the EFSD, Russia provides 88 percent of the Fund's capital, but decisions are taken by a 90 percent majority, a rule that requires Kazakhstan —as the second major creditor country—to vote with Russia to gain a majority. Second, decision-making in the AMF is made by a board of executive directors supported by a range of institutions, which include an audit and risk committee (AMF 2018). In the EFSD, the main and only decision-making body is the EFSD Council, composed of the member countries' finance ministers, which is chaired by the finance minister of the Russian Federation due to its largest capital contribution and supported by a council of experts (see EFSD 2009).

Following Kring and Grimes (2019), we distinguish three dimensions to examine surveillance: autonomy, transparency and capacity. Regarding the first aspect, both mechanisms can be characterized as autonomous since member states as shareholders decide autonomously about loan approval or denial without institutionalized collaboration with the IMF or other international organizations. Both mechanisms offer liquidity conditioned on economic reform program implementation for their facilities. In the AMF, one exception is the automatic facility, under which up to 75 percent of paid in capital can be drawn immediately without conditionality. The EFSD requires the borrowing country to develop a stabilization program for the national budget. The criteria for the reform programs are supposed to be set discretionarily by the board.

At the same time, we find elements of cooperation with other institutions like the IMF. Emergency liquidity financing is in some cases approved in coordination with other financial institutions or partners, including co-financing arrangements. In Armenia in 2014 and 2015, for example, the EFSD and the IMF co-financed a budget support to stabilize the economy. The IMF set the program objectives, and the EFSD funded the necessary supporting activities. Similarly, in the case of the AMF, there is no prescribed rule for cooperation with other institutions, but some facilities require drawing liquidity from the IMF or another regional or global financial institution first.

Regarding the second dimension of surveillance, transparency, we assess transparent operation in the AMF in contrast to the EFSD, at least until 2018, shared less information. The AMF shares information on lending terms, facilities, eligibility criteria, conditionality, lending activities and the fund's budget in annual reports. Loan conditionality is formulated based on a country mission and on request of the member countries; yet the agreements with the countries are not publicly available. Since 2018, the EFSD has been constantly reforming institutional processes with the aim to, among others, increase transparency of its decision-making structures (EFSD 2018). While lending activities are reported online and in the annual reports, there is little information on actual conditionalities and the implementation of enforcement and surveillance rules. However, in contrast to the AMF, application letters and documents of the approval process are available. Changes in credit terms and volume are updated and explained online.

With regard to the third aspect, the surveillance capacity of these two mechanisms, the AMF can be considered to have considerable surveillance capacity. Country missions are the basis for each loan decision and for the terms of conditionalities. The mechanism also provides statistical information for member countries, for example, at the platform Arab Economic Database, in which it collaborates, among others, with the IMF. The AMF also provides technical assistance, such as training for central bank staff and finance sector specialists of the member countries, frequently demanded by the member countries. Further, the fund conducts research and publishes a series of working papers related to the AMF's tasks. In the case of the EFSD, little is known about its surveillance capacity and practices, and there is little statistical information about member countries.[49] Annual reports as well as online documentation of lending operations for financial credits show some cases of delay of tranches of credit provision due to nonfulfillment of conditions. In the case of Belarus in 2014, for example, the last tranche payment was suspended due to nonfulfillment of program criteria. In 2017, it was reported that the payment of one tranche to Belarus was delayed and only disbursed after the country improved the efficiency of state property management and mitigated the social impacts of these reforms.

Finally, for the assessment of RFAs´ surveillance capacity, we consider overdue loan repayments. While the EFSD does not provide information on arrears, the AMF (2018) documents outstanding loans. They all concern countries in conflict situations or war, such as Sudan, Syria and Libya. Again, we find the AMF to be more transparent and capable to document, report and discuss challenges of loan provision with its member countries publicly compared to the EFSD.

CONCLUSION

We find that the GFSN substantially expanded and diversified over the last decade due to increasing volumes provided by the IMF and RFAs and especially due to the emergence of large bilateral swaps. It thus has created wider coverage but also new inequalities. Even if RFAs in relative terms have lost importance by way of these changes, they are still relevant for their smaller member countries.

49 See https://efsd.org/en/about/.

When taking a closer look at two less-researched RFAs, the AMF and the EFSD, we see relevant differences in the country composition of the mechanisms regarding the relative size of their member countries that may explain differences in their governance structure. On the one hand, heterogeneity in terms of member size can be very positive as it provides a higher number of smaller member countries with sufficient liquidity. On the other hand, hegemony, in terms of clear dominance of one or a few member countries with distinct decision power, may create disincentives regarding transparency, as we see in the case of the EFSD. Less transparent corporate governance structures that reproduce regional heterogeneity instead of building in some elements of equal decision-making power between borrowing and lending countries may reduce member countries' interest in using their mechanism, or it may increase their intentions to diversify their sources of emergency financing to be less dependent on their RFA.

CHAPTER 7

DESIGNING SURVEILLANCE IN RFAS IN THE PRESENCE OF THE IMF[50]

C. RANDALL HENNING[51]

As RFAs emerge and evolve across the globe, they face a common set of choices with respect to the organization of economic policy surveillance.[52] Their capacity to conduct surveillance does not necessarily evolve in lockstep with their capacity for financial assistance. But if member states within each region aspire to actively deploy financial assistance through an RFA in substantial quantities, they will invest substantial resources in gathering economic data, analyzing exposures and vulnerabilities and conducting peer review of country policies.[53] Such investments will be necessary to preempt crises, specify circumstances under which countries should be permitted to draw on these arrangements when a crisis cannot be avoided and safeguard RFA resources. RFAs and their member states thus face choices surrounding the organization of surveillance that are conceptually similar to those that have confronted the IMF.

But there is one important difference between the choices faced by RFAs and those confronting the IMF: an RFA develops in the context of the pre-existing, incumbent, global multilateral institution for crisis finance, the IMF itself. That difference presents a choice to member states and regional secretariats in the design of the surveillance function: whether to pursue complementarity through a division of labor or to duplicate the surveillance capabilities of the IMF and thus overlap. The choice poses a strategic dilemma in allocating scarce budget and staff resources. The nature of the dilemma varies somewhat across regions, depending on the delegation of policy authority to the center, with European delegation running deeper than delegation elsewhere. To varying degrees, nonetheless, the dilemma is shared.

CHOOSING COMPLEMENTARITY

The IMF's capacity for analysis of monetary and fiscal policy, the macroeconomic framework, financial sector and debt sustainability has been developed over several decades, on the basis of country experience at all levels of development across its universal membership, with a budget that vastly

[50] Originally drafted as a policy note for "Leading by Design: Lessons from CMIM-AMRO for the Global Financial Safety Net," a workshop organized by the Japan Foundation Center for Global Partnership and the Boston University GDP Center, Boston, March 1, 2019, and updated in October 2021. Comments are welcome at henning@american.edu.

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[52] Henning (2020a) analyzes the relationship between RFAs and the IMF and the coherence of the global financial governance broadly.

[53] Surveillance is defined here as the review of economic policies and provision of advice on the part of international financial institutions, both with respect to individual countries (bilateral surveillance) and regional or global economies (multilateral surveillance). Surveillance does not include country-ranking exercises such as those that were undertaken in the now-discontinued "Doing Business Report" of the World Bank.

exceeds those of most RFAs.[54] A strategy of complementarity would direct an RFA to develop in areas of comparative advantage, which could include structural policy, regional financial markets and more frequent and fine-grained policy reviews of members, facilitated by geographic and time zone proximity. Knowledge of members' institutions and political environment conveys stronger local ownership and deft sensitivity in consultation and public communication.

Moreover, given innovation in the economy and particularly the financial sector, there are emerging areas in which IMF capacity has yet to catch up. Rather than developing capacity in areas where the IMF has traditionally been strong, such as macroeconomic surveillance, an RFA that took a complementary approach could cede that territory to the Fund and "leapfrog" to the new economic frontier. Such a strategy could recommend developing capacity in technological innovation in financial markets, fintech and artificial intelligence applications. These would include blockchain technology, digital currencies and their implications for the ability of regulatory agencies to monitor and control risk-taking by private institutions and international capital movements. These technologies also hold possibilities for central bank digital currencies, monetary policy and the monetary transmission process that national policymakers and international secretariats are exploring. They hold promise for financial inclusion in EMDEs and advanced countries alike but also peril, as risk will accumulate along the frontier, where it will probably be less transparent and certainly less well understood. Therefore, there is a strong substantive case for RFAs to devote their marginal surveillance resources to the frontier, thereby covering the broad spectrum of economic problems more comprehensively side by side with the IMF and other institutions.

Similar arguments could be advanced with respect to climate change and public health, the economic and development implications of which the global multilateral institutions have been called upon to analyze and advise but on which they have not held robust specialized expertise historically. RFA secretariats do not have comparative advantage in these areas either and, like the IMF, will need to collaborate with other international institutions in these areas, including the United Nations and the World Health Organization. But RFAs can develop staff and expertise to engage the other institutions on these matters and bring surveillance home to the local preoccupations of members in their respective regions.

Investment in surveillance along the frontier of evolving technology and new issues is expensive. Member states will have to invest in it if they are to receive cutting-edge analysis. In making the case for budgets to support salaries for personnel in this area, regional secretariats can reasonably argue that their purposes extend beyond surveillance and, in some regions, support for lending programs, as important as those are. RFAs also serve as a training function as personnel are seconded from national governments, mainly finance ministries and central banks, and rotate back to their home institutions. When they return, they carry with them the experience, expertise and personal contacts developed at the regional institution to the benefit of their national employer. As people revolve through the regional body, the network of officials with such experience expands and deepens support within national bureaucracies for regional cooperation in the future.

In this sense, one of the weaknesses of some regional institutions—the fact that employment contracts and secondments are often short to medium term—has silver linings. First, the shorter the visit at the regional body, the greater the number of visitors and the faster the growth of the regional network. Resources should be devoted to supporting post-secondment contact among such officials to reinforce professional exchange within the network and update them on the regional institution's activities. Second, with staff rotation and turnover, the regional secretariat can adjust the skills mix

[54] Surveillance on the part of the IMF derives from Article IV, section 1 of the Articles of Agreement, as elaborated by the Integrated Surveillance Decision of 2012 (IMF 2012), and reviewed periodically by the IMF's staff (see, e.g., IMF 2021) and the IEO (IEO 2019). Previous reviews include Pauly (1998, 2008), Lombardi and Woods (2008), Boughton (2012) and Truman (2010).

of its staff with somewhat greater alacrity than a well-established institution with long-term personnel contracts, allowing RFAs to reshape surveillance capabilities with greater alacrity, as might be required, for example, in a public health crisis. RFA management should develop plans to use turnover in this way.

CHOOSING OVERLAP AND COMPETITION

A strategy of complementarity contains a fundamental dilemma for RFAs, however. Although it prioritizes efficient deployment of staff resources, governments that constitute the institutions have other objectives as well. States in Europe, East Asia and Latin America have also created RFAs as an *alternative* to the IMF to *avoid monopolization* of surveillance and crisis finance on the part of the global multilateral institution. With respect to surveillance, they want a "second opinion." With respect to program design, they want influence, which can be facilitated by having regional and global multilateral institutions work together, as in case of the troika in the euro crisis (Henning 2017).[55] Member states that have gone to the trouble of creating an RFA are not likely to embrace a pure strategy of complementarity.

The comparative advantage model leaves member states dependent on each institution in their respective fields of competence within the established division of labor; it constrains the room for alternative views and analysis of the same problem. Nor does the comparative advantage model allow states to pick and choose among the surveillance products with which they are presented or allow them to play one institution off against the other. That dynamic might yield substantively suboptimal outcomes, but functional overlap exists because states design institutions to give themselves more, rather than fewer, options. For this reason, the IFIs have manifestly *not* evolved along the comparative advantage model. Substantive overlap in surveillance products is significant, and some regional organizations have even adopted the IMF's style of presentation in their surveillance reports.

Moreover, developing capacity to analyze the new-frontier areas in which the IMF does not have an established comparative advantage would have profound ramifications for the RFA's role and long-term development. Forgoing development of analytical capacity for macroeconomic policy and debt sustainability, for example, would consign the RFA to perpetual dependence on the Fund for these functions. Given that these are critical inputs to the design of the adjustment and conditionality provisions of financial assistance programs, a strategy of complementarity would tend to make the RFA dependent on the IMF for program design and thereby perpetuate or strengthen the IMF link.[56] As a consequence, such a choice would relinquish, for the time being, hopes for transforming the RFA into a full-fledged regional "monetary fund," one capable of designing and implementing programs and thus scaling back or eliminating the IMF's involvement.[57]

Among RFAs, the European institutions, with more resources at their disposal, have generally developed the greatest degree of overlap with the Fund. While there is considerable discussion within Europe about the respective competences of the ESM, the European Commission and the ECB, complementarity with the IMF is not prominent within it.

[55] For institutional collaboration generally, see, for example, Henning (2021), Gutner (2021) and Abbott et al. (2015).

[56] The IMF link is the requirement on the part of an RFA to require members to secure a program from the IMF in order to secure regional financing.

[57] Whether such regional monetary funds would be desirable is an important but separate question.

PERSISTENT TENSION

We are left with a tension between developing complementary or potentially competing capacity in RFAs that, while it can be managed, is not likely to go away. But competition among RFAs and the Fund in analysis and surveillance, while inconvenient for the staff of these institutions, can be beneficial from the perspective of member states. By providing a broader range of methods, models and forecasts, for example, competition permits states to compare and evaluate analysis, avoiding group think on the part of a single institution.[58] There is, of course, the danger that competing recommendations will dilute the impact of advice that institutions convey in bilateral surveillance, but there is also the possibility that when institutions agree, they reinforce one another and induce greater corrective action in member states.

Herein lies a second, related dilemma in organizing regional surveillance. Given that IMF surveillance is well established and ongoing, member states all have access to the surveillance reports on their regional neighbors through the papers and discussions at the Executive Board in Washington and the staff Article IV reports. Regional secretariats are asked to demonstrate "value added," information and insights that are not already available through the IMF process. Certainly, regional reinforcement or amplification of a warning from the IMF about a country's vulnerability could itself add value even if it is not substantively different. But most members are looking for substantively differentiated guidance rather than matching advice, and some advocate aggressive challenges to the views coming from the Fund.

However, going toe to toe with the IMF on its traditional turf of macroeconomic analysis, exchange rates and BOPs, and debt sustainability is dangerous for most RFAs. Regional staff are often simply outgunned by the budget, personnel, expertise, institutional apparatus and communications sophistication of the Fund. Doing so successfully would require a much larger allocation of resources to the regional bodies than most of them now have at their disposal, the primary exception again being the European institutions.

Member states have thus often been inconsistent in asking regional secretariats to challenge the IMF and break new ground in emerging substantive areas while at the same time constraining their budgets to levels that match the backward-looking agenda. The inconsistency is likely to persist for two reasons. First, member states often disagree among themselves about the extent to which the regional institution should challenge the Fund and simply do not agree on appropriate levels of support for it. Second, the value of the regional body to some of them is not so much in its current surveillance product, contrary to their stated positions, but as a hedge against the possibility that the IMF could someday become *un*available—in which case the regional institution could be built up further at relatively short notice (Kring and Grimes 2019, Henning 2019).

INCUBATING REGIONAL CAPACITY

As a general matter, international organizations often sponsor, nurture or even create other institutions that help them advance their missions (see, e.g., Johnson 2014). The IMF has done the same in a number of circumstances. The most consequential case has probably been the Fund's intellectual, analytical and material support for the institutional and economic deepening of the monetary union in Europe. "Completing" Europe's monetary union would probably put the IMF "out of business" in the euro area, but the institution has nonetheless supported such deepening (Henning 2020b).

Similarly, the IMF has been called upon to support RFAs' capacity building through training, technical assistance, joint meetings and conferences, joint country missions and staff exchanges. How

[58] For different types of spillover and institutional cooperation, see Johnson and Urpelaïnen (2012).

should the IMF answer this call? The question poses a dilemma for the Fund. On the one hand, it has an institutional interest in developing sophisticated, like-minded and compatible partners in the regional institutions, and training and capacity development is one way to foster them. On the other hand, the Fund does not have a bureaucratic interest in empowering institutional competitors, which is why some officials and observers advocate RFAs.

As a practical matter, the dilemma will ultimately be resolved by the preferences of key member states. When the leading creditor countries in the Fund and region favor IMF support for the RFA, the Fund may be inclined to provide it, as was the case with IMF support for European deepening. The answer thus hinges on the preferences of linchpin countries, those that lead the regional institution and are influential within the Fund—Germany and France, China and Japan, and Brazil and Mexico.[59]

AUTONOMY AND CONTROL

Expanding the surveillance capacity of RFAs brings to the fore the question of institutional independence, specifically what balance should be struck between the objectivity of analysis and control on the part of member governments. Some advocate that the central bank independence model should be applied to the IMF (see, e.g., De Gregorio et al. 2018). A similar argument could be applied to RFAs' other crisis-fighting financial institutions. However, following this recommendation would tend to vitiate democratic accountability, which would not be appropriate for decisions with deep political and distributive consequences. Instead, the staff and management of the IFIs should be organized along the following lines. The secretariats of RFAs and the IMF alike should be granted full autonomy in the technical and analytical functions that underpin data gathering, analysis and surveillance as well as program design and monitoring. The integrity of the analysis, including the macroeconomic consequences of policy adjustments in borrowing countries, should be absolute or at least as protected as possible.

But the approval of financing programs is a different matter. Owing to the magnitude of their economic and distributive consequences, such decisions are inescapably political and should therefore be the province of an executive board with political responsibility, which aligns decisions with those who ultimately bear the risk: national governments. It would be difficult, if not impossible, moreover, for these boards to enforce the overall performance goals of the secretariat without also wielding approval authority for individual programs. Importantly, this division of responsibility provides greater latitude than the central bank independence model for key members to oversee collaboration among RFAs and the IMF and to mediate compromises among them when that becomes necessary, functions that are increasingly necessary as the number of institutions that are involved in surveillance and financial assistance grows.

[59] The U.S., while certainly influential for other reasons, is not a linchpin country per se because it does not straddle the Fund and the region, although it maintains a small, little-used North American Framework Agreement (NAFA).

CHAPTER 8

THE IMF AND RFAS: SURVEILLANCE REFORM FOR GLOBAL FINANCIAL STABILITY

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INTRODUCTION

Since the GFC in 2008, global economic and financial conditions have changed significantly. Financial instability and vulnerability have increasingly challenged the world economy and have become a major concern for policymakers. RFAs, which help to address these concerns, have presented both challenges and opportunities for a strong GFSN, with the IMF at its center. Given that surveillance is the key function of the IMF, there is a need for updated reforms in the areas of surveillance scope, factors and approach. Moreover, effective collaboration between the IMF, other IFIs and RFAs is crucial in tackling the challenges posed by these concerns. Beginning in 2011, the IMF conducted its TSR to keep its surveillance updated to member countries' needs in changing economic and financial conditions. The latest review, which was updated as the Comprehensive Surveillance Review (CSR), was concluded in May 2021. As IMF surveillance forms the basis for the IMF's lending policies through monitoring member countries' economic politics and financial conditions, the next surveillance reform is essential for the Fund to strengthen its function in overseeing global financial stability and to enhance its central position in the GFSN.

UPDATING SURVEILLANCE SCOPE AND FACTORS

Changes to the IMF's mandate have necessitated updates to its surveillance scope and factors over time. For instance, the initial focus in the 1970s and 1980s was exchange rate stability in response to countries' BOP difficulties with the introduction of structural adjustment programs. In 2012, the scope of surveillance was broadened to include all macroeconomic and financial sector factors that were regarded as a potential impact on global financial stability. The 2008 GFC presented rising cross-border spillover and risks as well as the issue of fragmentation in surveillance. In response to these challenges, the IMF updated its surveillance toolkit with five operational priorities for 2014-19 in its 2014 TSR: risks and spillovers, macro-financial surveillance, structural policy advice, cohesive and expert policy advice, and a client-focused approach. Following the review, the IMF considered the Financial Surveillance Strategy as the pilot principles of surveillance with an emphasis on strengthening, updating and integrating the analytical macro-financial risk assessments based on both quantitative approaches and consultations bilaterally and multilaterally (IMF 2014).

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Financial vulnerability and spillover are a major threat for economic stability. The sources of vulnerabilities in different countries vary over time and can be attributed to changes in asset prices, trade relative prices, information and policy decisions. The channels through which these vulnerabilities affect the global economy include cross-border balance sheet exposure of banks, market sentiments and real and financial integration among economies of concern. The effects can vary, depending on the extent to which an economy is exposed to external conditions as well as its domestic economic and financial situations. The effects are also determined by the relative position of an economy in the world. In other words, there are key players as far as spillover is concerned. For instance, the U.S. dollar plays a leading role in many countries' external debt exposure, and the U.S. Federal Reserve (Fed) continues to act as the lender of last resort where dollar liquidity is necessary. However, a symmetrical problem persists between central economies and peripheral countries. This necessitates close monitoring of systematically important players, including countries, key currencies and the most influential central banks in the world. Therefore, the IMF should strengthen its ability to identify vulnerabilities and spillover risks as well as the effects of spillback between source and affected countries by providing institutional views linked to necessary policy actions.

The IMF also needs to refine its surveillance framework by integrating an institutional factor including financial and legal development as part of its surveillance (Ito 2018). Those who are under regional surveillance by an RFA would be considered as a plus factor in the IMF surveillance framework. In addition, some pre-crisis macroeconomic factors are also needed for a particular focus, such as current account balances, gross government debt, debt exposure, currency composition and financial conditions including credit growth, asset market prices and portfolio flows (Aizenman, Chinn and Ito 2017). There is compelling empirical evidence showing that precautionary surveillance could prevent worst-case scenarios and mitigate spillover effects between central and peripheral economies in times of contagious instability.

EXTERNAL SECTOR SURVEILLANCE

The ESR was first introduced in 2012 and was upgraded to the IMF flagship product for surveillance in 2018. It is based on an external balance assessment approach that is continuously updated to reflect staff estimation of multilateral perspective and country-specific analysis. The ESR also provides an understanding of current account imbalances, exchange rate misalignment and any issues that lead to potential policy distortions. Currently, it focuses on financial account positions; current account balances; real exchange rates; foreign exchange interventions; reserve accumulations; capital flow management; and financial, monetary, fiscal and social protection policies (IMF 2019).

However, in the context of external sectors, two factors must be considered further. One is the excessive movement of exchange rates. Exchange rate policy in member countries is not the IMF's mandate and does not form a direct condition for the IMF to decide its lending. However, the IMF monitors real exchange rates, which could potentially indicate policy distortions. The challenge now is that currency movement can be excessive and irrelevant to macroeconomic fundamentals, especially in times of divergent monetary policies among key economies. Academically, there are debates on whether exchange rate policy is workable for maintaining independent monetary policy in an open capital account—an impossible trinity that is described by Obstfeld and Taylor (1997) as a macroeconomic trilemma facing monetary authorities. The most recent IMF ESR also found that using exchange rates to facilitate durable external adjustment has limited impact due to the expenditure switch effect. And as the U.S. dollar is the major invoicing currency in trade, most countries' exports volumes are less sensitive to short-term exchange rate changes (Adler, Cubeddu and Gopinath 2019).

Research also suggests that exchange rate competitive devaluations do little for trade and would be useless as a weapon in a time of trade war. However, large-scale exchange rate fluctuation could generate market panic and trigger capital outflow. This is especially the case in emerging economies, for example, the massive devaluation of the Argentinian peso in 2018/19 and the subsequent capital outflow of the country. Therefore, the IMF must consider an institutional view on exchange rate stability and suggest a feasible approach to tackling excessive exchange rate movement under its own surveillance.

Another factor is cross-border capital flow. The IMF has become more tolerant about cross-border capital flow management and suggested a handful of tools to mitigate the subsequent macroeconomic and financial risks. The macroprudential measures are the most useful tools for individual countries. However, the rise of spillover effects makes it increasingly difficult for individual countries to cope with large, procyclical and speculative capital flows, which are typically the triggers for capital account crisis. Although the surveillance on cross-border capital flows are carried out at different individual, regional and global levels, the coordinative actions at regional or global levels are still absent. Some years ago, there was discussion on the possibility of imposing a Tobin tax on cross-border flows, where a universal tax would be levied on cross-border short-term capital flows, which was regarded as throwing sand in the wheels. In fact, capital flow is the key component of the IMF's surveillance variables. Gao and Gallagher (2019) argue the IMF institutional view on capital flows has been a major step but that the IMF still needs to improve by acknowledging that capital flow management measures should be standard parts of the toolkit rather than a reluctant last resort in times of major instabilities, creating mechanisms for greater international policy coordination on managing cross-border capital flows. In 2022, the IMF revised its Institutional View on the Liberalization and Management of Capital Flows. Therefore, it is time for the IMF to reconsider a collaborative approach to managing cross-border capital flows in a timely matter.

STRUCTURAL VARIABLES

To address the high frequency occurrence of structural issues, which can have a negative impact on growth, the IMF has made a concerted effort to intensify its focus on structural variables under its surveillance radar. One key element of this effort centers on good governance. In April 2018, the IMF adopted the new Framework for Enhanced Fund Engagement on Governance in response to the fact that weak governance and corruption could have negative impacts on sustainable growth. The framework consists of four elements concerning governance vulnerabilities: (1) assessment of governance vulnerabilities (including fiscal governance, fiscal sector oversight, central bank governance and operations, market regulation, rule of law, anti-money laundering and combating the financing of terrorism), (2) assessment of the macroeconomic implications of governance vulnerabilities, (3) a framework for policy advice and capacity development support to members and (4) measures designed for protecting private actors from corruption. This framework allows the IMF to address governance issues and corruption through surveillance (IMF 2018).

Another element is public investment and debt sustainability. In April 2018, the IMF updated its key tool for assessing infrastructure governance, the Public Investment Management Assessment, to promote efficiency and effectiveness in public investment. It also worked together with the World Bank and updated the Low-Income Country Debt Sustainability Framework in late 2017, which provided tailored economic recommendations for preventing excessive debt build-up in low-income countries. In 2019, the IMF also collaborated with the World Bank to deliver a note on the G20 Operational Principles for Sustainable Financing: Creditor Practices. Such operational principles will identify policy options based on voluntary self-assessments by G20 members.

These efforts could strengthen the IMF's ability in addressing structural issues and debt sustainability. However, three elements must be considered further. First, IMF surveillance on debt issues should focus on preventing excessive debt build-up and the resulting economic consequences, both at the aggregate levels in a country and across borders. It is worth noting that unlike the World Bank, the IMF does not provide loans for specific projects. Second, collaboration with other international institutions on structural surveillance should be based on clear labor division and avoid work duplication. Third, as surveillance forms lending policy, the new structural and debt surveillance should be in line with the IMF's existing framework of lending conditionality.

In 2021, the IMF updated the guideline of surveillance by incorporating climate change, digital technology, inequality, demographics and geopolitics in its CSR (IMF 2021). This effort reflected that the IMF kept pace with time and prioritized its surveillance in response to new challenges and opportunities that could have impacts on global inclusive and sustainable development and stability.

THE RISE OF RFAS

There are many reasons why a country would seek support from an RFA in times of financial instability. The advantages of RFAs stem from the fact that financial contagion often has strong regional effects, which requires a regional-specific prescription and targeted resolution. Compared to the IMF, RFAs are better equipped to fulfill these tasks by providing tailored policy actions and quick financing disbursement with flexible conditions. However, in terms of surveillance, loan size, design of toolkits and coverage of several countries, there is a clear heterogeneity among different RFAs.

While the existing RFAs share the same goal to secure regional financial stability, they have different models, mandates and history. For instance, the ESM is the most active RFA of its kind. It has €500 billion capacity covering all 19 eurozone members with the objective of reserving the eurozone's financial stability with temporary financial assistance. The ESM does not have a legal link with the IMF program; it also does not conduct surveillance, which is outsourced to the European Commission. Another example is the CMIM, which is the second youngest RFA in the world. The CMIM has $240 billion capacity ear-marked by central banks and finance ministries and covers 10 ASEAN countries plus China, Japan and Korea. Disbursement of funds through the CMIM program is linked to IMF conditionality to the extent that 60 percent of the loans require such conditionality, and member countries have a borrowing limit of only 40 percent.

Moreover, AMRO performs surveillance for the region through its ERPD Matrix. The matrix considers members' external position and market access, fiscal policy and monetary policy, financial sector soundness and supervision, and data adequacy from both quantitative and qualitative criteria. The CMIM program has never been activated so far. In Latin America, the FLAR performs regional financial safeguards by managing the BOPs of eight member countries through the provision of credits and guarantees. It has no direct link with the IMF in loans. There are also a number of other regional funds, such as the AMF, with $4 billion for 22 members in the region, and North American Framework Agreement (NAFA) with $9 billion for three North American countries. The former has a close relationship with the IMF in terms of surveillance and loans; the latter does have its own surveillance but provides support through central bank swaps. Such heterogeneity among different free trade agreements provides variety as well as segmentation problems as far as an effective GFSN is concerned.

CLOSING SURVEILLANCE GAPS

In thinking about RFA surveillance, it is useful to consider it within a global context, starting with how it interacts with that of the IMF. The IMF's current surveillance has broader member coverage and a well-established framework. It conducts surveillance through both bilateral and multilateral channels, and one such approach is its annual Article IV consultations with member states. The IMF's publications are also part of its surveillance approach. For instance, it publishes periodical and flagship reports including the "World Economic Report," the "Global Financial Stability Report," the "Fiscal Monitor," regional economic reports, the ESR, global policy agenda reports and spillover reports. The rise of RFAs brings new requests for further collaboration with the Fund so as to enhance the effectiveness of the GFSN through bridging the gaps of difference in views, analytical models and toolkit designs.

The differences between the IMF and RFAs in terms of surveillance are clear, and there is ongoing debate about how to bridge these gaps while maintaining a certain degree of independence for RFAs. The argument around these gaps is focused on several key aspects. First, these differences in views may be due to a lack of a unified analytical framework or differing judgments of what is critical for a program. Second, the IMF relies on a set of early warning indicators to identify both domestic and external vulnerabilities, but it is challenging to make it effectively applicable for all the countries. Nation-specific remedies are probably the most desirable response to economic challenges, and therefore determining how to respect nation-specific views while using generalized standards remains a challenge. Third, clear responsibility and full complementarity require effective labor division in surveillance and conditionality between the IMF and RFAs. It is also necessary to preserve consistency and limited arbitrage need for coherent program design and effective, consistent and coordinated public communication (IMF 2017).

One useful tool to improve the Fund's collaboration with RFAs and bilateral arrangements could be the IMF's Policy Coordination Instrument (PCI). Although the PCI involves no use of Fund resources, the standard conditionality applies with regularly reviewing programs providing feedback on program performance. In further exploring the applicability of the PCI, it is important to maintain a review-based approach and a certain degree of flexibility in terms of the duration and frequency of dialogues between member countries and the IMF in order to avoid the old IMF's stigma. In addition, high monitoring standards are necessary to send positive signals of reform commitment so that the countries in the PCI program can have better access to other regional or bilateral financial support.

CHAPTER 9

STRENGTHENING THE INTERNATIONAL FINANCIAL SAFETY NET WITH SOUTH-SOUTH PRINCIPLES OF ANALYSIS, ALTERNATIVE AND CHOICE

DIANA BARROWCLOUGH[61]

BACK TO THE FUTURE

Debate about future links between RFAs and the IMF may benefit from some reminders about the principles of South-South cooperation, first agreed four decades ago and more recently reaffirmed at the Second High-Level Conference on South-South Cooperation in 2019. Most RFAs are led by and oriented to the South, so it is important that this gathering, held to mark the 40th anniversary of the Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation (BAPA+40) among developing countries, and after multiple economic and financial crises, should again insist on the benefits of distinctiveness, alternative and choice. The presidents, prime ministers and other leaders of almost 100 countries affirmed again that developing countries should have their own institutions, with the capacity and skills to identify and analyze their own development problems and provide support according to South-South principles. “South-South cooperation and its agenda have to be set by countries of the South and should continue to be guided by the principles of respect for national sovereignty, national ownership and independence, equality, nonconditionality, noninterference in domestic affairs and mutual benefit” (clause 8, BAPA+40).[62]

These principles suggest a narrower window for collaboration with the IMF than that suggested by the G20 (Global Finance Governance 2018). At the same time, however, there is recognition of the need for a truly global and multilateral IMF (IMF 2018; TDR 2016). With global debt levels at three times GDP, at the time of writing, an unknown burden of shadow bank debt on uncertain terms, a sluggish global economy offering difficult trade conditions and highly volatile exchange rates, the world needs a fully functioning GFSN more now than ever. There is no doubt there are benefits from collaboration and cooperation between the regional and global levels of the safety net, but collaboration does not mean convergence. The 2019 South-South conference rather supports the view that the net is best strengthened by having a diverse network of regional institutions as well—with distinctive and independent institutions that reflect developing country needs and aspirations and provide alternative views and choices, especially in times of distress. Yes, the IMF should be significantly better resourced, and yes it needs to reform its governance and expand and improve its toolkit, as suggested by many writers including UNCTAD, Gao and Gallagher (2019) and Truman (2018). At the same time, the regional arrangements also play an essential role. Not least, they ensure a distinctive Southern voice in the international order, something that has still not happened despite many years of being on the agenda.

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[61] Senior economist, UNCTAD. The views expressed in this paper are those of the author and do not necessarily reflect the views of the United Nations or its officials or member states.

[62] Buenos Aires outcome document of the second High-Level United Nations Conference on South-South Cooperation.

The first South-South Conference was held in Buenos Aires in 1978 in an international environment described as a "state of ferment," which, although buffeted by different forces compared to today's volatile global economy, still rings some bells. The 1970s saw stagflation, the oil price crisis, the dollar crisis and a loss of confidence in capitalism, amid many other things. Developing countries reeled in the wake of events that happened far away and wanted to integrate into the global economy in a better way. There was also the sense that following the historic process of decolonialization, a number of developing countries, especially those representing an overwhelming proportion of the world's population, should participate in international affairs (clause 2, Buenos Aires Plan of Action, or BAPA). The agreement highlighted principals of solidarity and "collective self-reliance" and said that developing countries should identify and analyze their own paths for development. It is probably no coincidence that the FLAR was born in the same year and the AMF already celebrated its first year of operations; it was a time of "dramatically heightened emphasis"[63] on providing alternatives to the existing economic order.

ALTERNATIVES AND CHOICE

Such a fertile period of institution building is being repeated in the last decade as the 2007-08 GFC showed the limitations of the existing international financial architecture. It reminded Asian countries of the pain they experienced during IMF-financed assistance packages in previous crises and of the opportunity costs of holding large foreign reserves as an insurance policy. South-South issues were further raised as the global economy realized its dependence on developing countries such as China, Republic of Korea and Brazil to help avert a global meltdown.

RFAs such as the FLAR, the AMF, the ESM, the CMIM and especially the bilateral swaps between capital surplus and deficit countries offer very significant benefits, due to not only the additional liquidity finance provided—in trillions of dollars that far exceed the fire power of the historical lenders of last resort—but also the speed at which they gave support and their lack of conditions beyond that of repayment. Designing their own rules and operations, with a fair distribution of ownership and voice, has always been part of it.

A concern, however, raised by Fritz and Mühlich (2018) and others is that despite this, many countries still have few alternatives and choices. The RFAs' cover is unbalanced, and many miss out. Larger members of regional pools can never be assured of sufficient liquidity in times of distress. In the AMF, only three members can be assured that their needs will be fully met. A small group of countries have the potential to "shop around" between the Fund, bilateral swaps and RFAs; some are too large for their RFAs but can potentially rely on bilateral swaps, and others are too small to be able to attract a swap but can be sufficiently covered by their RFAs. None could handle the shock of systemic crisis where many countries in the same region were hit at once. Thus, for most, the only option remains the IMF, and at present, that continues to mean accepting policy packages that are heavily conditional (Kentikelenis, et al. 2016).

PRINCIPLES OF SOLIDARITY

One principal of solidarity is that all members should have a voice, and potentially an equal one, irrespective of whether the country is most likely to be a creditor or a lender, of a certain economic size or of a certain weight. In numerous meetings of RFAs and South-South development banks attended by this author, this concept was cited as "part of the DNA" of the institutions (Barrowclough and Gottschalk 2018). But bilateral swaps are creditor driven, and recipients depend on the goodwill or

[63] See https://www.unsouthsouth.org/bapa40/documents/buenos-aires-plan-of-action/.

political willingness of just one partner nation—a very different dynamic from being part of a pool of multiple members who could be either creditors or debtors. In practice only the FLAR holds the principle of one-member, one-vote, and historical experience does suggest that (with just one or two exceptions) all members can be borrowers just as often as lenders. In the CMIM, votes are distributed according to the proportions of capital pledged, with big differences between the larger, richer economies and lower-income ones. Some countries are not especially likely to be borrowers.

This difference is also seen in the ESM, where one or two countries have very large voting shares (Germany with 1,900,248 and France with 1,427,013 as compared to Portugal's 175,644 or Ireland's 111,454.) However, the role of "voice" can be experienced even with differential voting, especially when compared to the alternative of the institution not being there in the first place. Of the 22 members of the AMF,[64] only Saudi Arabia is a member of the G20, and so the AMF remains an important mechanism for voice; as with the FLAR, which includes no members in the G20. Of the CMIM, only four are members of the G20 (China, Indonesia, Japan and Korea), meaning that the institution potentially offers small countries an important forum in which to share experiences and to be an alternative voice to the global institutions.

ANALYSIS AND ADVICE

G20 Principle No. 5 (G20 2011) urges that the "consistency of lending conditions should be sought to the extent possible in order to prevent arbitrage and facility shopping, in particular as concerns policy conditions and facility pricing." However, such choices are what developing countries want. In intergovernmental meetings of the United Nations, developing country representatives and policymakers say they want real alternatives in the financial architecture. In the BAPA+40 negotiations, it was agreed that "developing countries tend to share common views on national development strategies and priorities," reflecting "proximity of experience" (clause 13) and that they should "develop country-led systems to evaluate and assess the quality and impact of South-South programmes," thereby including support from RFAs (clause 25).

Hence, the fact that RFAs are an alternative to the historical Bretton Woods institutions is one of their reasons for existing. The FLAR may be small by global standards, but it is valued because it has provided essential support to its members 46 times in 40 years, providing liquidity quickly and without conditionalities. It has never set out to be the lender of last resort, like the IMF; rather it plays the complementary role of lender of first resort, and both are needed. Similarly, the search for diversity and alternative choices lies at the birth of the CMIM—its members had a deep-rooted desire to never again experience having no choices of where to turn to during the AFC of the 1990s.

The fact that countries appreciate having another kind of voice is further apparent in the recent decision that the ESM is not subsumed within the general legal framework of the European Community. The ESM was established at the height of the European sovereign debt crisis, outside the European Community framework by an intergovernmental treaty (European Parliament 2019). It is a permanent rescue mechanism aimed at safeguarding the financial stability of the euro area.[65] In late 2017, the European Commission proposed to transform it from being an intergovernmental body into a European Monetary Fund under EU law, shifting power away from member states. However, the proposal met considerable resistance, and one year later at the 2018 Euro Summit, it was decided to maintain the ESM's intergovernmental character. This is one way in which it may maintain the ability to have an independent and alternative voice.

[64] Jordan, United Arab Emirates, Bahrain, Tunisia, Algeria, Djibouti, Saudi Arabia, Sudan, Syria, Somalia, Iraq, Oman, Palestine, Qatar, Kuwait, Lebanon, Libya, Egypt, Morocco, Mauritania, Yemen and Comoros.

[65] It has supported Greece, Ireland, Portugal, Spain and Cyprus, enabling them to stay in the euro. With a paid-in capital of 80 billion euros, it is one of the largest IFIs in the world.

Having this kind of legislative respect for different internal voices is important because it can be difficult to adopt an alternative view within long-standing institutions. They are slow to change—steering like supertankers, not racing yachts. Even during the 2007-08 GFC, the teams of economists and managers carrying out Article IV consultations and advising on liquidity support to countries in dire straits did not take on board lessons learned from the failure of austerity policies during the crises that occurred more than one decade earlier and had been analyzed and identified by their own internal evaluators. Article IV consultations are still the main vehicle through which the IMF carries out surveillance activities today, and the new loans continued to contain conditionalities related to domestic economic policy, public employment levels and sale of public assets while also setting fiscal targets "based on over-optimistic assumptions about the pace of economic recovery, leading inevitably to fiscal under-performance" and "over-optimistic assumptions about the pace of revival of private investment" (IMF 2013).

The cost of the gap between expectations and what actually happened was high. After the crisis of 2007-08, countries that took IMF support and enacted the conditionalities required experienced a shock to GDP that was much worse than predicted. Where a fall of 5 percent was expected, the actual fall was in the order of 15 or 20 percent. At the same time, they did not get the improvement of the government balance that was promised. As shown in UNCTAD research, even after the experience of the crises of the 1990s and soul searching by IMF evaluators, the advice of the Article IV Agreements still systematically overstated the willingness of the private sector and understated the impact on GDP and fiscal revenues (TDR 2016). It is surely not a coincidence that the CMIM and the ESM were established to provide an alternative source of support in the wake of such disappointments (Barrowclough and Gottschalk 2018; Kring and Gallagher 2019; Ocampo 2018; TDR 2015).

There have been some encouraging signs of multiple views emerging, including the advice from the former chief economist of the IMF, Olivier Blanchard, that capital controls should be part of the tool box of monetary policy, or that Japan should forget about balancing its budget and run deficits for the indefinite future as the only way to avoid unemployment.[66] On the other hand, a broader range of views is needed from other institutions as well. Credit rating agencies—which play an essential role in global capital markets and whose judgments could spark a run that could put countries into foreign liquidity distress—show little divergence in their analyses or views. The views are typically very mainstream as shown, for example, in the strong convergence between their ratings of credit risks and the World Bank's "ease of doing business" indexes. Countries running less orthodox policies were rated lower even if the macroeconomic indicators did not merit it (TDR 2016). One could argue that this is to be expected in the sense that credit rating agencies are simply reflecting the general view—like a Keynesian beauty contest where the goal is to select the winner that most people would pick—however, it reinforces the need for genuinely differentiated research approaches and assumptions and different points of view. Thinking can be cyclical just as much as can be capital flows and the creation of credit. The rapid industrial transformers of Asia have benefited greatly from designing their own views and taking an alternative path—and now seems like a good time to keep on doing this.

CONCLUSION

There are many areas where collaboration and the sharing of information and experiences between RFAs and the IMF could be helpful, contributing to international financial stability and ensuring that all countries can access the foreign liquidity cover as and when they need it. There are also many areas where having a distinctive different voice is important, contributing to regional and national resilience, choice and voice in an unbalanced and volatile global economy.

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66 See https://www.ft.com/content/ab57a006-7d07-11e9-81d2-f785092ab560.

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