BRILL
NIJHOFF

GLOBAL GOVERNANCE 26 (2020) 428–448

brill.com/gg

Institutionalizing Financial Cooperation in East Asia

AMRO and the Future of the Chiang Mai Initiative Multilateralization

William W. Grimes
Frederick S. Pardee School of Global Studies, Boston University,
Boston, MA, USA
wgrimes@bu.edu

William N. Kring
Global Development Policy Center, Boston University, Boston, MA, USA
wkring@bu.edu

Abstract

Since the 1997 Asian financial crisis, East Asia's ASEAN+3 states have built the second-largest regional emergency liquidity fund in the world, the Chiang Mai Initiative Multilateralization (CMIM). With a total commitment of $240 billion to aid member states facing a currency crisis, CMIM can provide more funds to members than the International Monetary Fund (IMF). Nonetheless, CMIM continues to be functionally subordinate to IMF decisions. This may now be changing following the 2011 creation of the ASEAN+3 Macroeconomic Research Office (AMRO) as a regional mechanism to manage surveillance and design of CMIM lending programs. The ability to delegate surveillance and program design to an independent body is a crucial prerequisite to ending CMIM's subordination to the IMF, and AMRO seeks to ensure such autonomy through its institutional design. This article analyzes AMRO's progress toward autonomy, using indicators of effective delegation drawn from organizational theory and newly available information and data on AMRO.

Keywords

Chiang Mai Initiative Multilateralization – International Monetary Fund – ASEAN+3

 | DOI:10.1163/19426720-02603005

1 Introduction

The global system was ill-prepared for the onset of the Asian financial crisis (AFC) in 1997. The only dedicated emergency liquidity mechanism to which the crisis-hit economies could turn was the International Monetary Fund (IMF), and the IMF had neither the lendable funds nor the analytical framework (nor the enthusiastic support of its largest shareholder, the United States) to manage the crisis.[1] While criticism of IMF plans had been a long-standing feature of the IMF's relationship with developing countries, as demonstrated most glaringly in the Latin American debt crisis of the 1980s, the AFC was something new and different. Analytically, the IMF was not prepared for either the speed of the crisis or its form (the "capital account crisis"),[2] as the AFC dealt blows to seemingly well-managed, export-oriented economies. Its solutions therefore drew on an older playbook that had developed in African and Latin American countries that contributed to their own crises through loose fiscal or monetary policies, import substitution, or overvalued exchange rates. Financially as well, the IMF was constrained in its ability to supply the massive amount of funds needed to shore up the open economies of Thailand, Indonesia, and South Korea due to their low IMF quotas—for example, it provided only $4 billion of the $17 billion committed to Thailand and $20 billion to the $56 billion committed to South Korea.[3]

In the aftermath of the AFC, East Asian countries sought to insulate themselves from a repeat of the crisis, by building their own national reserves, pushing for IMF quota and facility reform, and building a regional fund to help to prevent and manage crises. Each of these has been consequential. Domestically, East Asian countries (even if we do not include China and Japan, by far the largest holders of international reserves in the world) have vastly increased their reserves, reduced their short-term dollar liabilities, and improved financial supervision.[4] In the IMF, the East Asian economies have pushed hard for quota reform (with moderate success) and facility reform (with more substantial success).[5] As a result, economies in crisis are able to obtain much larger amounts of funds with greater flexibility and—for well-managed economies—with far fewer and less onerous conditions attached. These efforts have received considerable attention from economists and political scientists, and are argu-

1 Blustein 2003; Sakakibara 1998; Sheng 2009.
2 Yoshitomi and Ohno 1999.
3 Blustein 2003.
4 Grimes 2014.
5 Truman 2018.

ably well understood. Less understood is the development of East Asia's own regional emergency liquidity mechanism, the Chiang Mai Initiative Multilateralization (CMIM). That is the subject of this article.

This is not to say that CMIM has not received substantial attention.[6] In a previous article, we summarize the key questions addressed in the literature on CMIM and other RFAs, which have largely focused on the interests and intentions of participating states, whether from functionalist, realist, or critical perspectives.[7] However, CMIM has been a rapidly moving target, having moved from a weakly institutionalized, ad hoc set of idiosyncratic bilateral swap agreements (BSAs) among eight of the ASEAN+3 countries, notionally totaling $ 40 billion, to a multilateral reserve pool of $ 240 billion with clear contribution and voting shares and a dedicated unit to manage economic surveillance and program design and implementation.[8] Most of the literature on CMIM to date has addressed questions such as membership, enforcement mechanisms, moral hazard, relationship to the IMF, and potential for venue shopping. These questions are indeed important. However, to our knowledge there is as yet virtually no serious examination of *institutionalization*, largely because of the newness and initial secrecy of the CMIM surveillance unit, known as the ASEAN+3 Macroeconomic Research Office (AMRO). In recent years, however, AMRO has progressed substantially in the direction of expanding its capabilities and institutionalizing its practices, and has also become significantly more open to outside experts and the public.

The development of AMRO as an international organization is very important to the future of CMIM. Advocates of delinking CMIM from the IMF have long recognized the necessity of having an autonomous and capable organization that can recognize and diagnose the causes of members' financial crises, then prescribe appropriate remedies and conditions. Without the expertise, CMIM finance ministers would be dependent either on their own political/economic judgments (which would likely vary widely in a crisis) or on an outside agency—in other words, the IMF. Without the autonomy, leading creditors (i.e., China and Japan) would be politically exposed for any decision either to bail out or deny a bailout to a member economy—and, as we have argued in the past, neither can trust that the other will cooperate in the heat of a crisis.[9]

6 Henning 2002; Katada 2003; Amyx 2008; Grimes 2006, 2009, 2011, 2012, 2014, 2015; Hamanaka 2011; Lee 2008; inter alia.

7 Kring and Grimes 2019.

8 A sense of AMRO's significant changes over its short history can be gleaned from its website at https://www.amro-asia.org/.

9 Grimes 2011, 2012.

In this article, we seek to provide a preliminary answer as to whether AMRO is moving toward fulfilling the mission with which the ASEAN+3 finance ministers have charged it. We draw on organizational theory to develop rough indicators of effective delegation. Drawing on newly available information and data on AMRO, we use these indicators to analyze AMRO's progress toward autonomy, which will help to determine the long-term potential of CMIM to serve as a regional guarantor of financial stability in East Asia. We begin with a brief section contextualizing the CMIM as one of a growing number of regional financing arrangements (RFAs) around the world. We then turn to a review of some of the relevant literature on rational design and organizational attributes of international organizations to draw lessons about how to define and measure "institutionalization." Next, we present the available evidence and compare it to those lessons. We end with a preliminary assessment of AMRO's progress toward becoming an effective international organization, and prospects going forward.

2 CMIM in Context

In 1997, regional liquidity mechanisms were a rarity. Probably the best known was the European Union's Exchange Rate Mechanism (ERM), first established in 1979, then replaced by the combination of the euro and ERM II in 1999.[10] However, ERM was not meant to manage currency crises, but rather to promote exchange rate stability and policy convergence. Moreover, the ERM was not really a regional organization—rather, it created an unlimited (but unenforceable) intervention obligation for currencies that moved higher or lower than their reference range. The only regional *emergency* liquidity mechanisms were the Latin American Reserve Fund (FLAR, established in 1978 as the Andean Reserve Fund) and the Arab Monetary Fund (AMF, established in 1976).[11] Both were and are small in scale: even today, the FLAR's and AMF's lending capacities are only $4.8 billion and $2.8 billion, respectively.

The rarity of regional emergency liquidity mechanisms is striking in comparison to the multiplicity of regional development banks. As Phillip Lipscy points out, this makes good sense. Among the reasons are scale barriers to entry (and particularly in open economies, the amount of reserves needed to address crises can be large indeed), and the challenges of pooling highly sensitive infor-

10 Höpner and Spielau 2018.
11 Kring and Grimes 2019; Fritz and Mühlich 2018.

mation.[12] We have previously also argued for the importance of "blame avoidance" (i.e., political cover), a reputation for certainty of provision of funds when needed, and a mechanism for reducing moral hazards by demanding pre- or postconditionality.[13] Lipscy makes the case that entry barriers for emergency liquidity provision are extremely high, leading to greater reliance on the IMF than is the case for development banks. He supports this argument by noting that the level of concentration in emergency liquidity provision from 1978 to 2005, as measured by the Herfindahl-Hirschman Index (HHI) was 0.88, reflecting the IMF's near monopoly of 94 percent of disbursements over that period, compared to an HHI of 0.22 and a World Bank share of 31.1 percent in development lending.[14]

In the years since, however, there has been a remarkable development of RFAs, including the expansion and multilateralization of CMIM, the establishment of the European Stability Mechanism (ESM) and the Brazil, Russia, India, China, and South Africa (BRICS) Contingent Reserve Arrangement (CRA), and even the expansion of both capabilities and disbursements of the seemingly tiny FLAR. Looking at lending capacity rather than actual disbursements, we calculate an HHI in the emergency liquidity space today of only 0.38, with the IMF possessing 52 percent of global lending capacity. Behind the IMF's lending capacity of $1 trillion comes the ESM's €500 billion ($570 billion as of this writing), CMIM's $240 billion, and the BRICS CRA's $100 billion.[15] These are estimable amounts, and appear to show regional decisions to break through the barriers of scale previously associated with the global emergency liquidity system. Further, this does not include bilateral swap agreements, some of which are very large—for example, Japan-Indonesia is $22.76 billion and China's local currency swap agreements with Malaysia and Singapore are equivalent to approximately $26 billion and $43 billion, respectively.[16]

12 Lipscy 2017.

13 Grimes 2006, 2009, 2011.

14 Lipscy 2017, 74.

15 It should also be noted that there is a range of bilateral swap agreements that may either supplement or compete with the IMF and regional arrangements. These are particularly significant in East Asia, as shown in Kring and Grimes 2019. Indonesia, for example, can in theory draw on the equivalent of nearly $50 billion in its bilateral swap agreements (over $22 billion from Japan, plus local currency swaps equivalent to $18.9 billion from China and $9.5 billion from South Korea). Note that these do *not* include central bank swaps with the US Federal Reserve, which have been more widely used but are also much more contingent for developing countries. For more on those, see McDowell 2012, 2017.

16 Kring and Grimes 2019.

CMIM was the first mover in the world of large-scale regional funds. We will mostly dispense with the history that runs from the AFC to the Japanese proposal for an Asian Monetary Fund to the creation of the Chiang Mai Initiative (CMI) as a network of bilateral swap agreements (BSAs) to CMI "multilateralization" and the creation of AMRO, but it is worth noting that there are three main elements of the story. One has been CMIM's increasing scale (from a notional $40 billion initially to $240 billion today), coupled with a reduction in the so-called IMF link that limits the amount of CMIM funds that can be released without cooperation with the IMF. Another is increasing institutionalization and standardization of agreements, procedures, and expectations. The third major element has been the attempt to improve surveillance, particularly in the form of AMRO, which was established in 2011 and has been building out its capabilities since. As description, the history is fairly well settled and has been laid out in a variety of works.[17] Causality has been a different matter, as various approaches have been proposed to explain East Asian financial regionalism, building from approaches that have ranged from functionalist to constructivist to realist. While this remains an interesting and occasionally fertile debate, we raise a more concrete set of questions here about the progress of CMIM as a *formal regime*. Functionalists and realists alike identify a set of capabilities that CMIM must develop to allow it to operate independently of the IMF (or, perhaps, as an equal partner to the IMF) rather than as its vassal, including surveillance and program design and implementation.[18] To provide political cover—that is, to manage those tasks without the leading creditors either being held responsible for unwise loans or being blamed for adverse decisions or tough conditions—requires the existence of a credible and autonomous organization. One solution is to make use of an existing organization, which means the IMF. This is the solution that the original CMI took and which is still effectively in force with CMIM. The BRICS CRA has also followed this approach, borrowing directly from the CMIM's foundational documents. The ESM, in contrast, builds on a well-established tradition of European Union governance that values the apolitical bureaucrat and creates a bulwark against interference by powerful states. The older FLAR and AMF also present a contrast to the external delegation approach.[19] Despite CMI's and CMIM's dependence on the IMF through the mechanism of the IMF link, however, it has long been a stated goal of the CMI and CMIM leadership to create *regional*

17 See, for example, Henning 2002; Katada 2003; Amyx 2008; Lee 2008; Grimes 2009, 2011, 2015; Hamanaka 2011; Lipscy 2017; Kring and Grimes 2019.

18 Kawai 2009, 2015; Grimes 2009.

19 Kring and Grimes 2019; Fritz and Mühlich 2019.

capabilities for surveillance and program design and implementation.[20] While proponents and skeptics may disagree on the feasibility and even desirability of this effort, it is evident that institutionalization is a major goal of the ASEAN+3 participants and has the potential to transform the nature of the CMIM regime.

3 The Organization of International Organizations

International organizations are varied and complex entities, comprising a variety of missions, memberships, governance structures, resources, organizational capabilities, rules, and procedures.[21] It is always wise to be cautious in making generalizations about such a diverse universe, but there are important lessons to be drawn from theoretical and empirical literatures on international organizations. This may be particularly true in Asia. While the region has experienced a rapid proliferation of international organizations over the past several decades, much of the general international organizations literature still implicitly accepts mid-1990s conceptions of an "Asian Way," in which informality and soft law dominate, whether for cultural or historical reasons. In fact, as Saadia Pekkanen makes clear, international cooperation based in Asia varies significantly across the key axes of formal versus informal and hard law versus soft law (clearly moving away from the 1990s claims that Asian countries had a clear preference for informality and nonlegalism).[22] As a highly formal, rules-based regime, CMIM is almost the opposite of the so-called Asian Way. This makes sense, given that vast sums of money are on the line, as well as the prospects for moral hazard. CMIM is a creditor-driven organization in which Japan and China have the most money at risk and the least potential need of rescue, so they highly value clear rules and enforcement mechanisms.

CMIM itself is an intergovernmental agreement (in Pekkanen's (2016) categorization: hard law/informal), in which decisions are ultimately made by agreement among the participating states' finance ministers. In contrast, AMRO is a formal organization, with specific tasks and procedures. It was created intentionally (which to say, rationally) to provide accurate, objective analysis regarding ASEAN+3 economies and the financial risks facing them. Thus, to better understand AMRO, the organization now at the heart of CMIM operations, we turn to the insights of rational design of institutions (RDI). We

20 Kawai 2005, 2015; Grimes 2006; Takagi 2010; Siregar and Chabchitrchaidol 2013.

21 For a tour d' horizon of the wide variety of international organizations and regimes based in and around Asia, see Pekkanen 2016, chap. 1.

22 Pekkanen 2016.

begin with Kenneth Abbott and Duncan Snidal, who identified two "fundamental" characteristics of international organizations that made them useful to their members: centralization and independence.[23] Certainly, most actual international organizations do not approach the ideal type. Still, the central insight into why states may prefer operating through international organizations instead of unilateral actions or coalitions of the willing makes intuitive sense. "Centralization" is basically a solution to the problems of coordination and collective action, creating a basis of common knowledge and reducing the costs to each participant of obtaining relevant information, while also reducing the set of possible bargaining outcomes through the use of norms, rules, and procedures. "Independence" provides members the assurance that information and analysis is not slanted to fit the preferences of a subset of members and, crucially, provides members distance from decisions that are likely to be politically or diplomatically unpopular—that is, political cover, plausible deniability, blame avoidance.

Although this formulation is certainly concise and makes intuitive sense, it is also extremely reductionist and does not meaningfully address the vast variation across cases. This was the task of subsequent RDI writers, especially Barbara Koremonos, Charles Lipson, and Duncan Snidal.[24] Their work created a taxonomy of dimensions across which international organizations may vary: membership rules, scope of issues covered, centralization of tasks, rules for controlling the institution, and flexibility of arrangements. It then develops a series of hypotheses about how each of these dimensions is responsive to the issue area and to the needs and preferences of the members. Following their framework, the issues at play are enforcement and uncertainty about the state of the world. As they hypothesize, "centralization increases with uncertainty about the state of the world" and "centralization increases with the severity of the enforcement problem".[25] In a previous article, we use the RDI framework to analyze RFAs, applying relevant RDI hypotheses to the design of CMIM and the FLAR as regimes, focusing particularly on the political elements of design, including membership, voting rights ("control"), and relations with the IMF.[26] These elements primarily define the relationship of the CMIM regime to members and external actors (IMF). C. Randall Henning has addressed a similar set of issues through the lens of "regime complex."[27] However, there has been no

23 Abbott and Snidal 1998, 4.
24 Koremenos, Lipson, and Snidal 2001a, 2001b.
25 Koremonos, Lipson, and Snidal 2001a, 788, 789.
26 Kring and Grimes 2019.
27 Henning 2019.

scholarly study to date of how AMRO's *capabilities* are developing. This is actually crucial to the long-term functioning and role of CMIM within the global financial safety net.

In this article, we focus on the internal *organizational* factors that will determine the capabilities of the regime, regardless of the preferences of the members with regard to key political questions related to internal and external governance. In other words, we set aside the most commonly asked questions about CMIM—that is, will or should CMIM inevitably evolve into a standalone regional liquidity mechanism that can operate without IMF involvement in bailouts? Instead, we take as a given that AMRO's development as a capable and independent surveillance and program design unit is a precondition for whatever future CMIM's members are moving toward, whether that future be delinking from the IMF, creating a more equal relationship with the IMF, or simply providing better and more regionally sensitive information to members as they manage their own economies or provide policy feedback to their partners. Our key questions, therefore, come down to the development of internal capabilities and organizational insulation from the directives of CMIM principals (i.e., member governments).

Unfortunately, RDI theory has little to say about how to measure success in building capabilities and autonomy. However, we can draw on organizational theory as well as on analyses of existing international organizations to see how various ones have succeeded or failed in these respects. We begin by noting that all organizations operate within a broader institutional ecology that is composed of stakeholders, competitors, and allies, as Jeffrey Pfeffer and Gerald Salancik noted over three decades ago.[28] Ngaire Woods applies a similar understanding to the work of the IMF and World Bank, focusing her analysis on shareholders, staff, and borrower governments.[29] Looking at the relationship between shareholders and professional staff, she writes that "beyond the bottom line set by powerful governments, the work of the IMF and the World Bank is influenced by professional economists whose labors are in turn shaped by a particular institutional environment."[30] The particular institutional environment of the IMF is shaped by the Articles of Agreement, which stipulate that staff are hired at the discretion of the managing director and are responsible to the organization rather than their home governments, and that member governments will not seek to influence professional staff's performance of their responsibilities (Article XII). The AMRO charter similarly states, "The Director

28 Pfeffer and Salancik 1978.

29 Woods 2007.

30 Woods 2007, 4.

and the staff shall, in the discharge of their functions, owe their duty entirely to AMRO and to no other authority. Members shall respect the international character of this duty and shall refrain from all attempts to influence any of the staff in the discharge of these functions"[31] and "AMRO, independently and without undue influence of any member, shall prepare such reports as it deems desirable in carrying out its purpose and functions."[32]

Below, we investigate the extent to which AMRO's organizational structure and functions ensure these conditions will hold. To do so, some authors focus on the transmission and continuity of ideas.[33] Given AMRO's brief history to date, this does not appear to be a useful particularly useful approach, especially as the experiences of the professional staff reflect a range of international organizations (the IMF, Asian Development Bank (ADB), Inter-American Development Bank), national finance ministries, and central banks. Instead, we focus on more observable aspects of internal organization and capabilities.

Michael Barnett and Martha Finnemore argue that international organizations must be understood as organizations that seek to ensure autonomy by a variety of generic practices, even as their stakeholders may seek effective control.[34] In the principal-agent language, this is the arena of agency slack. Among the techniques for increasing agency autonomy are control of information, the deployment of specialized knowledge, and the development of standards and procedures that limit the capability of stakeholders to intervene.[35] These are typical in international organizations as well.[36] In this article, we focus on the challenge for AMRO to create the autonomy and capability that it needs to fulfill its assigned mission of providing accurate and objective economic analysis to the ASEAN+3 member states, but we should also note that the means of securing autonomy can also have negative effects—as Barnett and Finnemore write, "It is often the very features that make bureaucracies authoritative and effective that can encourage bureaucratic dysfunction."[37]

31 ASEAN+3 2016, Art. 11, para. 5.
32 ASEAN+3 2016, Art.11, para. 5(c).
33 Woods 2007; Chwieroth 2009; Ban 2016.
34 Barnett and Finnemore 2004.
35 There is an extensive literature that develops these insights dating back at least to Crozier 1964, who wrote on the "bureaucratic phenomenon" well before Niskanen 1971 first introduced the principal-agent terminology to political institutions.
36 Barnett and Finnemore 2004; Woods 2007; Edwards 2018.
37 Barnett and Finnemore 2004, 8.

4 Institutional Development of AMRO

In this section,[38] we assess available indicators of institutional development in AMRO. These include legal indicators (establishment as a formal IO, articles of agreement, etc.), resource indicators (budget, personnel, organization, scope of activities), and procedural indicators (surveillance procedures and practices).

4.1 *Legal Indicators*

While the necessity of creating an economic surveillance unit to support CMIM dates back to at least 2005,[39] it was not until 2009, after the first wave of the global financial crisis ended, that the ASEAN+3 finance ministers formally agreed to the establishment of an independent economic unit that would be responsible for economic surveillance. AMRO was established in 2011, initially in the form of a limited partnership under Singapore law to allow for the rapid hiring of staff, setting of procedures, beginning surveillance operations, and providing policy advice to the members. In February 2016, it was officially chartered as an international organization based on a treaty signed by its members.

While the basic contract that underlies CMIM has never been made public, AMRO is different. It is established by treaty and is legally registered as a formal international organization. Although it collects and analyzes confidential information, it has been made quite transparent in what it is and what it does. This transparency is intentional. It is meant to establish AMRO as an authoritative and professional actor in the eyes of member governments (in their roles as both shareholders and subjects of surveillance) and other international organizations (including the IMF, ADB, the FLAR, and the ESM).

AMRO's establishment as an official international organization has been an important institutional milestone, for at least four reasons.[40] First, as noted above, it has brought about greater openness, as the organization now must publish at least some key indicators of its activities such as expenditures and

38 Uncited material in this section is based on extensive interviews and discussions with current and former AMRO officials over a period of three years. This includes a workshop on RFA surveillance attended by practitioners and scholars that we organized at AMRO's main office in Singapore in October 2018 under Chatham House rules.

39 Kawai 2005; Grimes 2009; Takagi 2010.

40 The only published work on this issue of which we are aware is Chabchitrchaidol, Nakagawa, and Nemoto 2018 (also published in Japanese in *Finansharu Rebyū*). Yoichi Nemoto was AMRO director from 2012 to 2016 and was responsible for creating AMRO's charter as an international organization as well as doing much of AMRO's initial hiring, organizational setup, and procedural development. This makes the article authoritative in the issues it addresses.

number of officials. Second, it removes AMRO from Singaporean legal jurisdiction and places it under the purview of international law. Third, since AMRO is formally established as a treaty, it locks in support for AMRO's mission and activities from ASEAN+3 governments and, thus, provides it legitimacy as a regional actor. Fourth, it creates the legal framework for AMRO to create Memorandums of Understanding to exchange information with other relevant international organizations, including the IMF, FLAR, and ESM (as well as observer status in the UN General Assembly). The last of these is important in demonstrating its credibility to respected international organizations and in borrowing credibility from those organizations. As the AMRO website states, "In building ties with our partner institutions, AMRO aims to (i) establish and expand regional and global networks so that AMRO can fulfill its mission, vision and core functions, and (ii) bolster its status as the premier international organization in the ASEAN+3 region."[41] While all these attributes tend to reduce discretion, they also increase the costs of direct political pressure by CMIM states, thus contributing to autonomy as well as capability.

4.2 *Capabilities and Organization*

AMRO's articles of incorporation are publicly available,[42] and from 2017 onward it has begun to issue annual reports that include basic data on key indicators of capabilities such as top-level budgetary data. There is no such data available for years prior to 2016, during which AMRO was incorporated as a limited partnership in Singapore. According to the 2017 Annual Report, AMRO has two main budgetary sources. One is annual levies on its members that are meant to cover staffing, with the total (approximately $13.5 million in 2017) decided by consensus and then apportioned by share of total financial contributions. The other is "Office-Related Support" (valued at $5.1 million in 2017) that is offered by AMRO's host, the Monetary Authority of Singapore (MAS) in the form of space in the MAS building and information technology support. According to past interviews, an unspecified amount of additional budgetary support for activities has also been made available through voluntary payments from some members, primarily China and Japan; in this regard, the AMRO Annual Report does mention support from China, Japan, and South Korea for technical assistance.

AMRO is headed by a director, who is hired by the CMIM members' finance ministers. Below the director are a chief economist and two deputy directors

41 ASEAN+3 Macroeconomic Research Office (undated).

42 ASEAN+3 2016.

(Administration; CMIM, Strategy, and Coordination). Surveillance, which is carried out by professional economists organized under five group heads, is arranged both along country lines and by function (e.g., financial stability, fiscal policy). By internal practice, no group head is in charge of surveillance of their own country. There are no field offices, and all AMRO personnel are based in Singapore. In principle, all AMRO employees are hired on an individual basis by AMRO, although in practice a few are seconded by their home governments or central banks.

An additional indicator of capability is size. AMRO has a total of fifty staff members (roughly three dozen of them directly involved in surveillance). According to discussions with AMRO staff, in the event of a currency crisis, program design would be entrusted to the chief economist and his or her surveillance staff. Looking at other RFAs, the ESM has 155 staff members and the FLAR has about 50. In contrast, the IMF employs 2,700 staff members to service the needs of its 189 members, with a budget of well over a billion dollars. Obviously, there is no clear benchmark that links size and effectiveness. We can say that AMRO's staff has grown steadily since its establishment (although it has likely hit a plateau for the time being, due to the way it is funded from member states' fiscal resources rather than through its lending activities). In comparison with the ESM and FLAR as well, it appears that AMRO remains a very lean operation. To surmount some of the limits of its internal resources, AMRO has proactively reached out to the IMF and ADB to supplement its own surveillance, as well as to improve its training and practices.

4.3 *Surveillance Practice*

AMRO has four main roles: surveillance; acting as a de facto CMIM secretariat (producing and maintaining records for the ASEAN+3 finance ministers); designing packages for swap activation; and providing technical assistance for members. The bulk of its surveillance function involves consultations with members that parallel IMF Article IV consultations, although they are less extensive and as yet are not provided on all countries.[43] Also, the director formally briefs the CMIM finance ministers (annually) and deputies (semiannually) during their Economic Review and Policy Dialogue (ERPD), along with the IMF regional representative and the president of the Asian Development Bank. The AMRO director also attends the meetings. The probity and quality of

43 The first country reports, issued in 2017, were for 2016. In that year, the only available reports are for Hong Kong, the Philippines, Singapore, and Thailand. For 2017, all members are covered except for Indonesia, Laos, and Malaysia. No reason is given for the omissions.

AMRO's Annual Consultation Reports constitute one indicator of the technical proficiency and objectivity of AMRO as a surveillance unit. Since previous years' reports were not made public, it is not possible to track even in an informal way the sophistication or accuracy of AMRO's surveillance effort over time, but we can compare recent reports to the efforts of the IMF (Article IV) and to those of private sector entities such as commercial and investment banks.

A preliminary comparison of the AMRO and IMF reports on China, Indonesia, Vietnam, Cambodia, and the Philippines suggests several similarities and differences, which mostly reflect the particularities of the two organizations' missions. For example, AMRO's China report, which relies on a combination of Chinese official data and data from other international organizations (which in general derive from Chinese official data), focuses on issues that may create risks to Chinese growth, currency disruptions, and spillovers in Southeast Asia. Like the IMF report, the AMRO report also includes a sort of running dialogue with Chinese interlocutors entitled "The Authorities' View" on issues that are of particular concern to the Chinese government (e.g., debt buildup, financial regulatory reform). There are few if any surprises in the report, which effectively summarizes data and debates about the Chinese economy through the lens of macroprudential supervision. Comparing the AMRO and IMF reports, there are two main differences. First, the IMF report goes well beyond macroprudential evaluation, spending much of its time on bigger and more controversial economic issues including rebalancing and digitalization. This seems to reflect a greater willingness on the part of the IMF to offer policy advice even on issues that are not immediately related to the likelihood of financial disruption. Second, and perhaps paradoxically, the AMRO report contains a novel graphic that estimates risk and potential impact of various adverse events. The methodology behind these estimates is not described, and appears to be considered proprietary.

In short, AMRO's China report is a professional document that should be useful in ongoing policy review and dialogue among ASEAN+3 members. In some ways, it focuses more on issues that are relevant at the macroprudential level than the IMF Article IV report, which focuses more on less emergent issues. According to the 2017 AMRO Annual Report as well as our discussions with practitioners, this is a conscious choice: "In 2017, AMRO revamped its country surveillance framework to make the assessment more forward-looking and focused on risks and vulnerabilities; the process more structured, rigorous and transparent; and the policy dialogue more engaging and effective."[44] How-

44 AMRO 2018, 17.

ever, in our assessment, the country reports are at their core more descriptive than analytical, offering a summary of key economic trends that could impact the region as a whole. Consideration of other 2017 reports, including those on Indonesia, the Philippines, Vietnam, and Cambodia, suggests an honest and occasionally critical appraisal of macroeconomic and financial risk factors, albeit with complete silence on political issues, corruption, and so forth. As yet, it is not obvious that AMRO surveillance is adding much new knowledge or analysis (although it is claimed that AMRO has progressed in developing "relevant analytical frameworks, such as country risk map, financial stress index, markets monitor, and debt sustainability analysis,"[45]), but it certainly shows a level of professionalism and objective economic analysis.

Importantly, published country reports do not represent the totality of AMRO's surveillance efforts. First, AMRO has also sought to develop regional reports (Thematic Studies) that pick up on particular themes that have relevance across borders to address concerns about contagion and correlation risk. Second, and more importantly to the mission of AMRO and the institutionalization of the surveillance process, is the use of surveillance. One aspect of such use is the considerable time that surveillance teams spend in confidential discussions with their hosts. This means that some concerns or recommendations that are considered too sensitive to put in print can be conveyed to the local authorities. Also, country surveillance underlies discussion among CMIM principals (who also constitute AMRO's Executive Committee) in their formal process of Economic Review and Policy Dialogue (ERPD). While the written country reports have become the initial basis of those reports, ERPD also includes AMRO's director and chief economist, who guide the discussion to focus on issues and areas of particular concern. Finally, AMRO is only one of several bodies that is monitoring and issuing reports on ASEAN+3 economies, most prominently the IMF and ADB (but also a variety of private actors, including rating agencies, think tanks, and financial institutions, some of whose analyses are quite consequential to developing countries in the region). These various analyses offer a diversity of views; while this may lead to confusion in some cases, when there is consensus among them it lends greater credibility to the analysis.

Returning to the issue of institutionalization, AMRO has instated several processes to improve the objectivity and quality of its surveillance. For example, surveillance teams are not headed by citizens of the country being appraised. However, the actual reports show considerable reliance on citizens

45 AMRO 2018, 17.

in the preparation of the reports. This points to a persistent concern of outsiders who have been skeptical of the ability of AMRO to act as an honest broker in the surveillance space: the size of the organization and the prerogatives of member states create a challenge for AMRO to do the kind of objective analysis that calls out urgent problems in a member's economy. To its credit, the AMRO leadership has worked to create a set of checks on particularism: country-team leaders cannot be citizens, all country reports are subject to peer review by another country-team leader, and all reports must be approved by the chief economist. Hiring patterns are also meant to reduce particularism, with many of the staff (including the current chief economist) having served at length in the IMF or ADB. Still, a significant proportion of the economist staff has served in national governments or central banks and, in some cases, they are expected to return. It is impossible to say whether this is necessarily a problem for the capacity and autonomy of AMRO, but it is clearly something to keep an eye on.

4.4 *Other Indicators*

Building on its surveillance responsibility, AMRO has also been tasked with making recommendations to the CMIM finance ministers regarding size and conditions for swap activation. While this function has never been tested, AMRO has been building procedures and expertise to develop its capabilities in this area. Its methods include recruiting staff with relevant experience (e.g., in the IMF), doing stress tests and simulations ("test runs"), and building cooperative relations with "strategic partners" (e.g., IMF, ADB, ESM). However, the lack of actual experience in managing or comanaging a regional currency crisis necessarily means that AMRO's credibility as a crisis manager is suspect. According to policymakers and analysts who believe in the importance of eventually eliminating the IMF link, AMRO's ability to turn its economic analysis into viable support plans objectively, effectively, and without political interference from members is the key hurdle to surmount.[46] So far, this goal has not been met, but it remains a major topic for discussion.

Finally, technical assistance takes two forms. One is essentially providing guidance to some developing country members on economic data collection and analysis. Of more direct importance to the CMIM mechanism is AMRO's role in planning for activation of CMIM swap lines. A major tool in this area of responsibility has been test runs (simulations) involving members and some external actors. For example, an important finding of one test run was that not

46 Kawai 2005; Takagi 2010.

all members had accounts at all other members' central banks, which would have created a major hitch for swap activation if this problem had not been discovered through the simulation. In October 2016, AMRO ran its first test run involving IMF-linked funds, and thus included the IMF in the exercise as well as its own members and the New York Federal Reserve. This practice has continued subsequently. An important outcome of the AMRO-IMF test runs has been the realization that cooperation between the two in an actual rescue plan would be difficult because the terms of CMIM swaps were shorter (even with the maximum renewals) than IMF standby agreement financing and had no provision for being disbursed in tranches. In effect, this could make CMIM swaps senior to IMF lending, which was seen as unacceptable to the IMF. This has apparently been resolved in principle, as announced at the May 2018 ASEAN+3 Finance Ministers and Central Bank Governor's Meeting.[47]

5 Conclusion

The institutionalization of AMRO is being addressed in a rational and methodical way. The leadership has focused on the key challenges facing CMIM as a creditor-driven regional emergency liquidity provider. These are what Abbott and Snidal refer to as "centralization" and "independence"—that is, creating the capability of doing the job that may eventually be demanded of it, while avoiding the trap of clientelism.[48] AMRO's efforts fit clearly into the recommendations of the RDI and organizational literatures, as detailed above.

The efforts of AMRO's second director, Yoichi Nemoto, to create an organization that can fulfill its mission are particularly impressive, including the creation of a legal charter, ratification by all members of its establishment treaty, and the first steps to develop a robust and resilient organization.[49] Similarly, the development of AMRO's surveillance and program design capabilities goes beyond what skeptics (including us) predicted at the time of AMRO's founding. The practices put in place by AMRO's chief economist maximize internal reviews while also seeking to mitigate home country bias and clientelism. In recent years, AMRO has also been proactive at cooperating and exchanging information with key external partners, including the IMF, the ADB, and other RFAs. These activities not only increase internal capabilities, but also create mechanisms to leverage outside agencies that may have relevant information

47 ASEAN+3 2018, Annex.
48 Abbott and Snidal 1998, 4.
49 Chabchitrchaidol, Nakagawa, and Nemoto 2018.

and experience. AMRO has also moved in the direction of transparency by publishing surveillance reports and cooperating with external partners and experts. While it is not obvious that this sort of transparency is relevant to AMRO's capacity to manage a crisis, it may well contribute to its long-term autonomy.

While it is relatively easy to track the growth and improvements of AMRO and to be impressed by how far it has come in only seven years of existence, the organization's efforts to develop capacity and autonomy remain limited by budgets, and will depend on the personalities and priorities of leadership and staff. It is also important to bear in mind that AMRO has so far had only four directors (the first of them mostly ceremonial) and one chief economist. While efforts to institutionalize norms and procedures are important to AMRO's ability to be an autonomous and capable surveillance unit, their resilience may be tested by future personnel changes, at least some of which may be marred by competition among the principals. In short, it is early to judge the potential of AMRO to fulfill its mission, but we hope that this article will contribute to this developing issue.

Acknowledgments

The authors are grateful for the generous assistance of the Japan Foundation Center for Global Partnership.

Bibliography

Abbott, Kenneth, and Duncan Snidal. "Why States Act through Formal International Organizations." *Journal of Conflict Resolution* 42 (1) (1998), 3–32.

Amyx, Jennifer. "Regional Financial Cooperation in Asia Since the Asian Financial Crisis." In *Crisis as Catalyst: Asia's Dynamic Political Economy*, eds. Andrew MacIntyre, T.J. Pempel, and John Ravenhill (Ithaca: Cornell University Press, 2008), 117–139.

ASEAN+3. "Agreement Establishing ASEAN+3 Macroeconomic Research Office." 2016. https://amro-asia.org/wp-content/uploads/2016/09/amro-agreement.pdf. https://asean.org/storage/2018/05/Final-Draft-Joint-Statement-of-the-21st-AFMGM-3-00000002.pdf

ASEAN+3. "Joint Statement of the 21st ASEAN+3 Finance Ministers' and Central Bank Governors' Meeting." 4 May, 2018.

ASEAN+3 Macroeconomic Research Office. "About AMRO: What We Do." (undated). https://amro-asia.org/about-amro/what-we-do/#partnerships.

ASEAN+3 Macroeconomic Research Office. *AMRO Annual Report 2017*. Singapore: ASEAN+3 Macroeconomic Research Office, 2018. https://www.amro-asia.org/asean3-macroeconomic-research-offices-annual-report-2017/.

Ban, Cornel. *Ruling Ideas: How Global Neoliberalism Goes Local* (Oxford: Oxford University Press, 2016).

Barnett, Michael, and Martha Finnemore. *Rules for the World: International Organizations in Global Politics* (Ithaca: Cornell University Press, 2004).

Blustein, Paul. *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF* (New York: PublicAffairs, 2003).

Chabchitrchaidol, Akkharaphol, Satoshi Nakagawa, and Yoichi Nemoto. "Quest for Financial Stability in East Asia: Establishment of an Independent Surveillance Unit 'AMRO' and Its Future Challenges." *Public Policy Review* 14 (5) (2018), 1001–1024.

Chwieroth, Jeffrey M. *Capital Ideas: The IMF and the Rise of Financial Liberalization* (Princeton: Princeton University Press, 2009).

Crozier, Michel. *The Bureaucratic Phenomenon* (Chicago: University of Chicago Press, 1964).

Edwards, Martin. *The IMF, the WTO & the Politics of Economic Surveillance* (New York: Routledge, 2018).

Fritz, Barbara, and Laurissa Mühlich. "Regional Financial Arrangements in the Global Financial Safety Net: The Arab Monetary Fund and the Eurasian Fund for Stabilization and Development." *Development and Change* 50 (1) (2019), 96–121.

Grimes, William W. "East Asian Financial Regionalism in Support of the Global Financial Architecture? The Political Economy of Regional Nesting." *Journal of East Asian Studies* 6 (3) (2006), 353–380.

Grimes, William W. *Currency and Contest in East Asia: The Great Power Politics of Financial Regionalism* (Ithaca: Cornell University Press, 2009).

Grimes, William W. "The Future of Regional Liquidity Arrangements in East Asia: Lessons from the Global Financial Crisis." *Pacific Review* 24 (3) (2011), 291–310.

Grimes, William W. "Financial Regionalism after the Global Financial Crisis: Regionalist Impulses and National Strategies." In *The Consequences of the Global Financial Crisis: The Rhetoric of Reform and Regulation*, eds. Wyn Grant and Graham Wilson (Oxford: Oxford University Press, 2012), 88–108.

Grimes, William W. "The Rise of Financial Cooperation since the Asian Financial Crisis." In *Oxford Handbook of the International Relations of Asia*, eds. Saadia Pekkanen, John Ravenhill, and Rosemary Foot (Oxford: Oxford University Press, 2014), 285–305.

Grimes, William W. "East Asian Financial Regionalism: Why Economic Enhancements Undermine Political Sustainability." *Contemporary Politics* 21 (2) (2015), 145–160.

Hamanaka, Shintaro. "Asian Financial Cooperation in the 1990s: The Politics of Membership." *Journal of East Asian Studies* 11, 1 (2011), 75–103.

Henning, C. Randall. *East Asian Financial Cooperation*. Policy Analyses in International Economics No. 68 (Washington, DC: Peterson Institute for International Economics, 2002).

Henning, C. Randall. "Regime Complexity and the Institutions of Crisis and Development Finance." *Development and Change* 50 (1) (2019), 24–45.

Höpner, Martin, and Alexander Spielau. "Better than the Euro? The European Monetary System (1979–1998)." *New Political Economy* 23 (2) (2018), 160–173.

Katada, Saori. "Japan's Counter-Weight Strategy: U.S.-Japan Cooperation and Competition in International Finance." In *Beyond Bilateralism: The U.S.-Japan Relations in the New Asia-Pacific*, eds. Ellis Krauss and T.J. Pempel (Stanford: Stanford University Press, 2003), 176–197.

Kawai, Masahiro. "East Asian Economic Regionalism: Progress and Challenges." *Journal of Asian Economics* 16 (1) (2005), 29–55.

Kawai, Masahiro. "Reform of the International Financial Architecture: An Asian Perspective." Working Paper No. 167 (Tokyo: Asian Development Bank Institute, 2009).

Kawai, Masahiro. "From the Chiang Mai Initiative to an Asian Monetary Fund." Working Paper No. 527 (Tokyo: Asian Development Bank Institute, 2015).

Koremenos, Barbara, Charles Lipson, and Duncan Snidal. "The Rational Design of International Institutions." *International Organization* 55 (4) (2001a), 761–799.

Koremenos, Barbara, Charles Lipson, and Duncan Snidal. "Rational DesignLooking Back to Move Forward." *International Organization* 55 (4) (2001b), 1051–1082.

Kring, William N., and William W. Grimes. "Leaving the Nest: The Rise of Regional Financial Arrangements and the Future of Global Governance." *Development and Change* 50 (1) (2019), 72–95.

Lee, Yong Wook. *The Japanese Challenge to the American Neoliberal World Order* (Stanford: Stanford University Press, 2008).

Lipscy, Phillip. *Renegotiating the World Order: Institutional Change in International Relations* (Cambridge: Cambridge University Press, 2017).

McDowell Daniel. "The US as 'Sovereign International Last-Resort Lender': The Fed's Currency Swap Programme during the Great Panic of 2007–09." *New Political Economy* 17 (2) (2012), 157–178.

McDowell, Daniel. *Brother, Can You Spare a Billion? The United States, the IMF, and the International Lender of Last Resort* (Oxford: Oxford University Press, 2017).

Niskanen, William. *Bureaucracy and Representative Government* (Chicago: Aldine-Atherton, 1971).

Pekkanen, Saadia. *Asian Designs: Governance in the Contemporary World Order* (Ithaca: Cornell University Press, 2016).

Pfeffer, Jeffrey, and Gerald Salancik. *The External Control of Organizations: A Resource Dependence Perspective* (New York: Harper and Row, 1978).

Sakakibara, Eisuke. *Kokusai kin'yû no genba: Shihonshugi no kiki o koete* [*The arena* *of international finance: Moving beyond the crisis of capitalism*] (Tokyo: PHP Shinsho, 1998).

Sheng, Andrew. *From Asian to Global Financial Crisis* (New York: Cambridge University Press, 2009).

Siregar, Reza, and Akkharaphol Chabchitrchaidol. "Enhancing the Effectiveness of CMIM and AMRO: Selected Immediate Challenges and Tasks." Working Paper Series No. 403 (Tokyo: Asian Development Bank Institute, 2013).

Takagi, Shinji. "Regional Surveillance for East Asia: How Can It Be Designed to Complement Global Surveillance?" Working Paper Series on Regional Economic Integration No. 50 (Manila: Asian Development Bank, 2010).

Truman, Edward. "IMF Quota and Governance Reform Once Again." Policy Brief No. 18–19 (Washington, DC: Peterson Institute for International Economics, 2018).

Woods, Ngaire. *The Globalizers: The IMF, the World Bank, and Their Borrowers* (Ithaca: Cornell University Press, 2007).

Yoshitomi, Masaru, and Kenichi Ohno. "Capital-Account Crisis and Credit Contraction." Working Paper No. 2 (Tokyo: Asian Development Bank Institute, 1999).