

*Submitted to the Bretton Woods Committee's
2016 Henry Owen Memorial Award Essay Contest*

Hong Zhang

Email: hzhang14@gmu.edu

Address: School of Policy, Government, and International Affairs, 3351 N. Fairfax Drive,
Arlington, VA 22209

Expected degree: PhD Public Policy (expected 2019)

School: George Mason University

Maintaining Relevance for the IMF in Asia: A Forward-looking Approach toward Regional Partners

The International Monetary Fund (IMF) seems increasingly marginalized in its role of crisis lender. Countries have either resorted to regional arrangements (such as the European Stability Mechanism) or relied on bilateral currency swaps (such as those between the US and Korea, Brazil, Mexico, and Singapore signed in 2008) for their needs. It was largely due to the stigma effect associated with IMF loans as well as the concern about inadequacy of IMF resources (more so in the European case).

Against this backdrop, the IMF faces particularly serious challenge for staying relevant in Asia. On the one hand, the unpleasant experience some Asian countries had with the IMF programs after the 1997 financial crisis still leaves a bitter taste, for which the IMF has also recognized its share of mishandling;¹ on the other hand, the region aspires to build its own capacity independent from the Washington-based IMF, currently represented by Chiang Mai Initiative Multilateralization (CMIM). The competition between China and Japan in leading Asian economic integration affords extra momentum to this process. After doubling its resources in 2012, CMIM now boasts resources of \$240 billion, equivalent to about twice of the total quotas these Asian countries have in the IMF and comparable to what they can expect to borrow under the IMF's Stand-by and Extended Agreements.²

That said, CMIM is still far from replacing the IMF in the region. It suffers from several limitations: 1) It is a pool of reserves managed by individual members rather than a contribution-based fund like the IMF, which limits its autonomy and effectiveness in times of emergency. 2) Countries will need to apply to an IMF program concurrently if they want to access more than 30% of the CMIM resources available for them. 3) Without a permanent secretariat, CMIM lacks procedural clarity for activation. 4) Asean+3 Macroeconomic Research Office (AMRO), the Singapore-based research unit in charge of economic surveillance under CMIM, only became a *bona fide* international organization in February 2016, whose capacity remains under-developed.³

It thus opens the space for the IMF to strategically engage with such regional initiatives. AMRO seems keen to work with the IMF and other Bretton Woods Institutions for its capacity building,⁴ a top priority for all member countries that are otherwise quite divided. While there might be a competition for talents,⁵ the IMF can be more proactive in helping to train analysts and build a collegial working relationship with AMRO, based on which input from the IMF can be incorporated into the institution's growth.

¹ International Monetary Fund, *The IMF and Recent Capital Account Crises*.

² Based on IMF's latest quotas after the Board Reform Amendment on January 26, 2016, and the SDR rates as of April 22, 2016.

³ Kawai, "From the Chiang Mai Initiative to an Asian Monetary Fund."

⁴ A joint seminar between IMF and AMRO was held in 2014, signaling intention of further collaboration.

⁵ Incidentally, AMRO just hired its first chief economist in April 2016, who has served as a deputy director of the IMF's Asia and Pacific Department.

The IMF possesses unrivaled strength in its technical knowhow. It remains well positioned for supplying surveillance and technical assistance, especially for the lower-income countries in the region, at least before AMRO reaches comparable competency. Even then, the credibility of IMF's independent surveillance on countries' macroeconomic and financial health cannot be easily replicated, in particular with respect to the large countries that dominate CMIM and AMRO. The IMF should continue to improve and strengthen its surveillance in the region, preferably in ways supplementary to AMRO (by focusing on inter-regional and global linkages, for example), to maintain its unique position as the authoritative assessor.

The IMF can also consider developing lending programs specifically tailored for Asia in collaboration with CMIM, provided that the latter develops adequate institutional capacity (hopefully with IMF's help). Giving CMIM a steering role in the region's financial assistance (as in the case of the European mechanisms) may help remove the stigma effect from IMF loans, the main reason why Asian countries have shunned the IMF.

When Japan proposed an "Asian Monetary Fund" (which continues to be Japan's ambition for the future of CMIM) in 1997, the IMF was opposed to it on the ground of moral hazard and duplication.⁶ Such a guarding attitude may not be very constructive for the IMF's future position in Asia. Instead, taking a stake in the healthy development of regional initiatives, the IMF can harvest long-term recognition and institutional influence.

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⁶ Kawai, "From the Chiang Mai Initiative to an Asian Monetary Fund."