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On the possibility of Asian Monetary Fund

By MURAKAMI Masayasu

With the Asian currency crisis of ten years ago as a turning point, a sense of solidarity has been formed in Asia, thereby promoting concrete measures of regional cooperation, especially in the area of finance. One of the ideas the Japanese government then proposed was the creation of the Asian Monetary Fund (AMF). This plan was intended to establish a new scheme for mutual support by pooling funds and providing liquidity for a member country in crisis. As Dr. SAKAKIBARA Eisuke, then the Japan Vice Minister for International Finance, looks back in various episodes of his book, this plan hit the setback of strong opposition from the U.S. and China, and in fact it was also too hasty a plan at that time. Ever since, while the AMF proposal has disappeared from the front stage, the Chiang Mai Initiative (CMI) has been advanced instead, which is creating a network of bilateral currency swap arrangements.

The CMI has so far accomplished progress in various areas, and reached a total amount of 79 billion USD as of the end of last year. As it is gradually becoming so large-scale, further progress is inevitably needed in order to achieve an efficient and effective function.

For example, the argument can be made that the current 16 bilateral swap arrangements should be unified so that the CMI could operate smoothly. Further strengthening of surveillance is also needed for its well-managed operation. Then, once the framework of surveillance is established, reform of the explicit link to the IMF of 90% of CMI's liquidity provision should also be on the agenda. Furthermore, if we try to give substance to CMI swap arrangements in order to obtain market confidence, we cannot deny the necessity of pooling foreign reserves any more. If the CMI makes progress in such a direction, it will be exactly the same outcome as the realization of the AMF.

It is true that the CMI will not easily progress to the extent envisaged by the AMF, and various opinions about the concrete design of the AMF will occur one after another when we try to establish an organization for regional surveillance and for the management of pooled foreign reserves. However, it should be emphasized that the framework which started as the CMI has the potential, as the inevitable conclusion of the strengthening of its functions, of evolving into the AMF in substance, which could not have been accomplished at the beginning.

This may offer us important suggestions about how we should make progress in regional

cooperation. Regardless of whether it should be called a "community," we can frequently find an overarching idea of regional integration and cooperation. Although we should not deny its necessity, we should not talk about unrealizable empty dreams either. We need to discern what can be started concretely. In addition, cooperation should be a path-breaking measure so that it can lead to the realization of the grander, overarching idea of community. In conclusion, the CMI has such a potential for path-breaking, and in this way, is currently paving the way towards the AMF.

(This is the English translation of an article written by MURAKAMI Masayasu, Director of Research of the Japan Forum on International Relations, Inc., which was originally appeared in "CEAC Policy BBS" on February 12, 2007)