



## A New Asian Monetary Giant?

*C. Randall Henning assesses the slow birth of a potential new financial cooperative led by China, Japan, South Korea, and the growing economies of Southeast Asia, but they are struggling to define themselves and their mission.*

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Our guest is C. Randall Henning, visiting fellow at the Institute and on the faculty at the School of International Service at American University, and the author of a new policy brief on the future of the Chiang Mai Initiative, which is a reference to a new monetary fund that is shaping up in East Asia. Thanks for joining us, Randy.

C. Randall Henning: I'm glad to do this with you.

Steve Weisman: Very few people have heard of the Chiang Mai Initiative (CMI), and you're making the case that it's something the whole world should be paying attention to because it is a joining of some very wealthy countries in East Asia who are talking about creating a fund that could become an important player in the global economy. How did the Chiang Mai Initiative get started?

C. Randall Henning: It goes back actually to the Asian financial crisis of 1997–98. At that time, the Japanese Ministry of Finance proposed what was dubbed an Asian Monetary Fund at the time. This was scuttled; it wasn't created.

Steve Weisman: The United States opposed it, among others, right?

C. Randall Henning: That's true. The US Treasury opposed it pretty strongly. But also, it lacked support from within the region, at least among some key countries. China in particular was at best ambiguous about it.

Steve Weisman: What were they worried about?

C. Randall Henning: Within Asia, there is some tension between Japan and China over the construction of arrangements like these. I think the Chinese weren't yet prepared to form a common fund or common arrangement with Japan at that time. But Chinese policy has evolved, and it's not yet clear that they are going to agree to a common fund in the form of this multilateralized CMI. But they

have been supportive of the development of the Chiang Mai Initiative in the form of a network of bilateral swap arrangements. And that's the next point in the history: In 2000, in the Thai city of Chiang Mai, the ASEAN+3 group agreed to launch a network of bilateral swap arrangements and have been quietly and slowly forming this network over the last several years.

Steve Weisman: It's not yet a multilateral funding arrangement like a regional IMF?

C. Randall Henning: Right. It is a network of bilateral swaps between pairs of countries: a Northeast Asian country (a potential creditor like Japan, China, or Korea) and a Southeast Asian country like Malaysia, Indonesia, or the Philippines. What they're now talking about very seriously is combining these bilateral swaps into a common fund that they would manage on a regional basis collectively. That's what they refer to as multilateralization. I use the word multilateral to refer to the multilateral institutions like the IMF and the World Bank. They like to use the word multilateral or multilateralization to refer to collective regional management of these swaps in the form of a common fund.

Steve Weisman: The richer countries involved here possess trillions of dollars of reserves in aggregate. So if they did some kind of multilateral fund, they would have a lot of money potentially to put into it.

C. Randall Henning: Absolutely. These 13 countries, the 10 countries of ASEAN and the three countries in Northeast Asia—China, South Korea, and Japan—they hold about \$3.5 trillion collectively. So if they put even a small proportion of these reserves at the disposal of a common fund, that would command quite a lot of resources. Now, they've agreed that the size of this common fund would be \$120 billion. They haven't yet agreed to create the fund but if they agree on the other elements of the fund, it would be \$120 billion.

Steve Weisman: The Clinton administration Treasury officials who were skeptical of this idea, whatever happened to them?

C. Randall Henning: Some of the people who scuttled the Japanese proposal in 1997 are back serving in the Obama administration: Larry Summers, director of the National Economic Council at the White House, and Timothy Geithner, secretary of the Treasury.

Steve Weisman: Have they changed their minds?

C. Randall Henning: We're going to have to ask them. They, and the Treasury department more generally, haven't said very much about these arrangements for some time. Circumstances have changed since 1997, and I think the United States should be conditionally supportive of these arrangements.

Steve Weisman: What are the conditions under which the United States would extend support?

C. Randall Henning: I think the United States and the global community have an interest in these arrangements being transparent and coordinated with the International Monetary Fund (IMF) and that they be reported and discussed within the IMF executive board. So provided that these Asian governments were willing to do that, I think the United States should accept these arrangements because the Asians would be contributing substantial resources that can flow in parallel with IMF funds and potentially US funds in treating financial crises in the area.

Steve Weisman: Do you see any danger of them going separately from the IMF and having their own deals to bail out countries in times of crises?

C. Randall Henning: That of course is what a number of people are worried about. I'm not worried about that at this point. First of all, there are differences of view within Asia about how to construct and administer these arrangements, and I don't think that they are willing to break with the IMF right now. They're aware that they have to make more progress in the development of their regional surveillance mechanism. Before East Asia is going to be in a position to define any conditionality that would flow through a multilateralized CMI, until they develop a regional capacity for analysis and surveillance, they're going to continue to rely on the IMF to help define the conditions that should be attached to the financing. So the way it's structured now in the bilateral swap arrangements under the CMI is that most of that money would not flow to a borrower in Southeast Asia unless that borrower also negotiated an IMF program. So it's designed as a parallel line of defense. But that will continue under a multilateralized CMI, although they may change the ratio between the linked portion and the unlinked portion in these arrangements.

Steve Weisman: These countries in Southeast Asia and, well, Northeast Asia, many of them have complained about being underrepresented in terms of voting shares and leadership of the IMF. Is the Chiang Mai Initiative a way of also pressuring the IMF to reform, as many people advocate, and restructure its leadership?

C. Randall Henning: It has that incentive effect. And I think the East Asians are largely justified in this. I think many of these governments do deserve larger shares of quotas and votes within the IMF. To the extent that it does provide an incentive for others to overcome the difficult hurdles in those negotiations within the Fund to redistribute quotas, I think that's so much the better. That's something that the IMF, for its part, really does need to address. There in particular, we'd like to see some European governments be more willing to consolidate representation and quota shares within the Fund in order to make space for other deserving countries or the countries that deserve larger shares.

Steve Weisman: Finally, Randy, you're a political scientist and economist: What do you make of the fact that in the 10 or 11 years since this initiative started, countries like China and Japan, which were wary of each other, are now cooperating? There's this new kind of evolving identity in East Asia. What political consequences do you see flowing from that?

C. Randall Henning: It will be really interesting to see whether these governments agree to cross this threshold together. When I say cross this threshold, I mean create a common institution where they agree to be bound by a joint decision, because that's something that they haven't been willing to do in the past. It'll be a tough decision for the Japanese and Chinese, Koreans and others. If they in fact do it, it'll be a real signal that something fundamental has changed within the region. It's not clear yet; we should have a better indication in early May when there will be another ASEAN+3 finance ministers' meeting in Indonesia. At that moment, we'll be able to drive a more definite conclusion about which direction these arrangements are going in.

Steve Weisman: Randy Henning, thanks very much for joining us today on Peterson Perspectives.

C. Randall Henning: Thank you, Steve. Glad to do it.

