Regional Financial Arrangement: An Impetus for Regional Policy Cooperation

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Regional Financial Arrangement:

An Impetus for Regional Policy Cooperation

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Abstract:

The primary objective of our study is to look into possible catalytic roles that CMIM, a regional financial arrangement among ASEAN+3 economies and its surveillance unit (AMRO) can play in enhancing macroeconomic policy cooperation in this region. The key questions that the study hopes to address are: can CMIM and AMRO provide impetuses for deeper and more meaningful macroeconomic policy cooperation in the region? What are the policy areas and what could be the catalytic roles for CMIM and AMRO in promoting policy cooperation?

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1. Background and Motivation

Amid the outbreak of sovereign debt crisis in the Eurozone economies and general uncertainties with the global economy, regional financial arrangement has gained attention and consideration as a supplementary to available global cooperation and as a possible first line of defence against economic and financial shocks for the member states. This is particularly evident with the regional financial cooperation among the ASEAN+3 economies.[i] The Chiang Mai Initiative Multilateralisation (CMIM) and its macroeconomic surveillance unit, the ASEAN+3 Macroeconomic Research Office (AMRO), established in March 2010 and May 2011, respectively, have made substantial headways. In the G-20 Meeting of Finance Ministers and Central Bank Governors in April 2013 in Washington D.C. and in September 2013 in Saint Petersburg, Russia, the ministers and governors reaffirm the important role that regional financial arrangements can play in the global financial safety nets.

Nonetheless, a series of fundamental questions have also been raised along with the advancements of the regional cooperation among these Southeast and East Asian economies. Some of these issues have well been discussed by early studies such as Siregar and Chabchitrchaidol (2013), Hill and Menon (2012), Sussangkarn (2011) and Takagi (2010). The most common concern expressed by these studies surrounds the size of the CMIM facility itself. Despite the doubling of the CMIM funding to USD 240 billion, effective in May 2012, the amount has frequently been criticized as too small and insufficient. The European (EFSF) of 750 billion euro in 2011, for instance, amounted to about 8 percent of the total GDP of the group, while the CMIM facility amounted to only about 1.5 percent of the total GDP of the ASEAN+3 economies. Critics have also questioned the links and the coordination between bilateral and multilateral regional financial cooperation in the region. As will be elaborated further, bilateral swap arrangements between major economies (such as China and Japan) and other economies around the globe, including members of ASEAN (such as Indonesia, Malaysia, Philippines and Thailand), have intensified since 2008.

While those concerns remain, the primary objective of our study is to look into possible catalytic roles that CMIM and AMRO can play in enhancing macroeconomic policy cooperation in this region. As the title of the paper indicates, can CMIM and AMRO provide impetuses for deeper and more meaningful macroeconomic policy cooperation in the region? What are the policy areas and what could be the catalytic roles for CMIM and AMRO in promoting policy cooperation? Equally important, what could be the potential impediments?

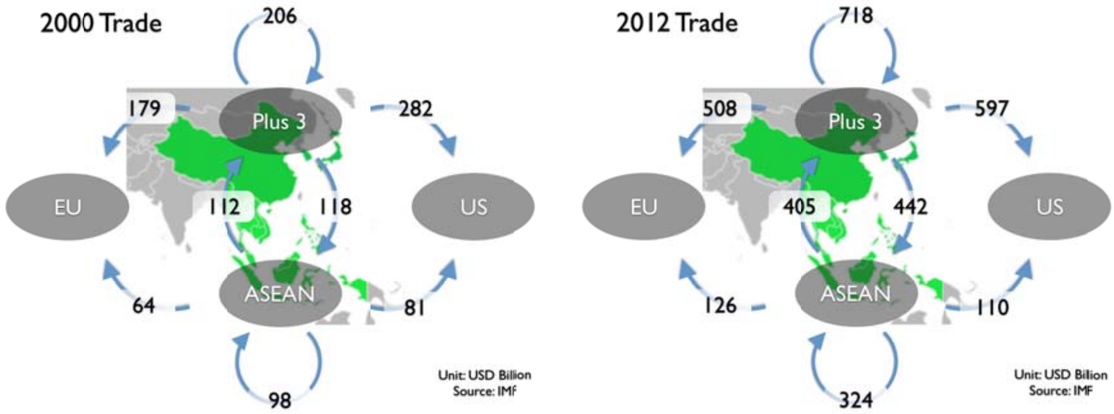
The roadmap of the paper is as follows. Section two will briefly discuss the rising degree of integration of ASEAN+3 globally and regionally. The main objectives of this section are to highlight the openness of the ASEAN+3 economies and more importantly the deepening of economic integration among these countries. Section three presents brief history on CMIM and AMRO, and highlights recent commitments. Next section attempts to address the key questions posted earlier. The discussion lists key policy areas for cooperation and presents basic premises and promises of the CMIM and AMRO in enhancing further policy coordination among the member economies. The discussion will then move on to underscore the urgency to establish a much needed arrangement to bring together regional bilateral and multilateral swap facilities into consistent, credible and mutually supportive financial liquidity supports. Section five ends the paper with brief concluding remarks.

2. Brief Overview of Increasing Integration in ASEAN+3 Region

2.1 Trade and Investment

The regional economy of ASEAN+3 has seen steady deepening of economic integration in many fronts, including trades and formation of global supply chains. Total international trades among ASEAN+3 countries have more than tripled since 2000, and more importantly, that expansions in cross-border trades have been reported widely across the region. The ASEAN's export to and import from Plus 3 have grown from USD 112 billion and USD 118 billion in 2000 to USD 405 billion and USD 442 billion in 2012, respectively (Figure 1). At the same time, trades within ASEAN and Plus 3 have also increased from USD 98 billion to 324 billion and from USD 206 billion to 718 billion, respectively, during the same period. Although exports to the US and the EU from ASEAN have also climbed, the rate of the increase was much less than that of intra-regional trades in ASEAN+3.

Figure 1: Trade Linkages of ASEAN+3 Economies (in USD billion)



One of the drivers contributing to the deepening of trade linkages in the region has been the commitments to the free trade agreements (FTAs) by the regional economies (Table 1). Starting with ASEAN Free Trade Area activated in 1993, ASEAN has negotiated and signed with other economies a number of FTAs, including those with China, Japan and the Republic of Korea (henceforth, Korea) respectively. Furthermore, the ASEAN Economic Community (AEC) aims at the additional degree of integration of the regional economy by 2015, promoting free movement not only of goods and services but also of investment, skilled labour, and capitals. Further inclusive facilities are under discussion, such as Regional Comprehensive Economic Partnership (RCEP) and Trans-Pacific Partnership (TPP) that involve more countries and fields. RCEP, whose negotiation started in November 2012, had been proposed by ASEAN to integrate 5 FTAs between ASEAN and its trade partners in Asia-Pacific region: Australia, China, India, Japan, Korea, and New Zealand.[ii] RCEP aims to broaden and deepen the existing FTAs with considering the different levels of development of participants. TPP[iii], launched by 4 countries including Singapore and Brunei from the ASEAN region in 2006, is going to be expanded to contribute to the Free Trade Area of the Asia-Pacific (FTAAP). Negotiations are on-going as of October 2013 by 12 countries, including Japan, Malaysia and Vietnam from the ASEAN+3.[iv] TPP is expected to achieve the comprehensive liberalization of international trades at a high level; non-tariff issues such as domestic regulations, intellectual rights, and government procurements have also been tabled.

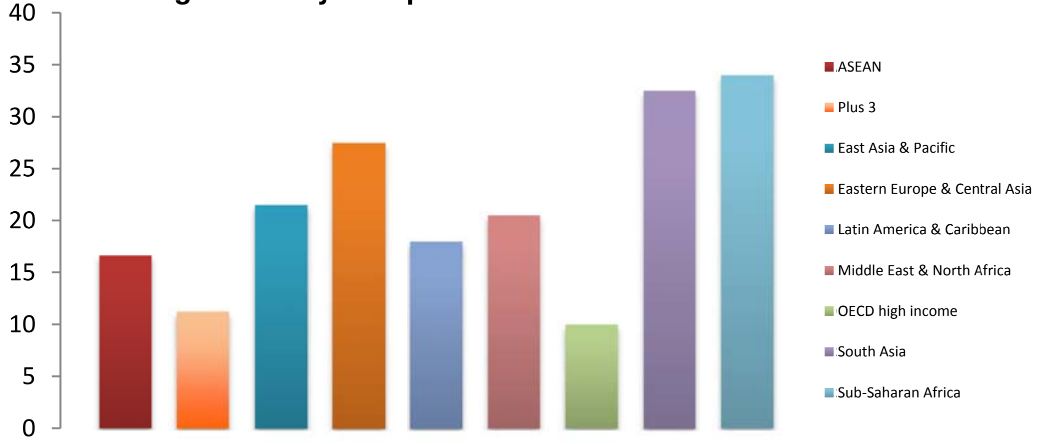
Table 1: Selected Free Trade Agreements

FTAs	Year in Effect
AFTA (ASEAN Free Trade Area)	1993
ACCEC (ASEAN-China Comprehensive Economic Cooperation)	2005
AKCCP (ASEAN-Korea Comprehensive Cooperation Partnership)	2007
AJCEP (ASEAN-Japan Comprehensive Economic Cooperation)	2008

FTAs under negotiation	Year in Negotiation
TPP (Trans-Pacific Partnership)	2010
RCEP (Regional Comprehensive Economic Partnership)	2012

Improvement in domestic facilities, infrastructures and administrative policies for international trades in each country has been the other locomotive to promote trades. The periods required for trade (exports and imports) procedures have shortened significantly. According to the IFC's database which covers 185 economies with standardized trade measures, it takes 17 days to export or import in ASEAN countries on average, less than any other regions, decreasing from 25 and 26 days needed for exports and imports respectively in 2007.[v] Hong Kong and Korea lead the trade facilitation in Plus3, whose average of 11 days rivals 10 days required in OECD's high income countries (Appendix).

Figure 2: Days Required for Trade Procedure 2013

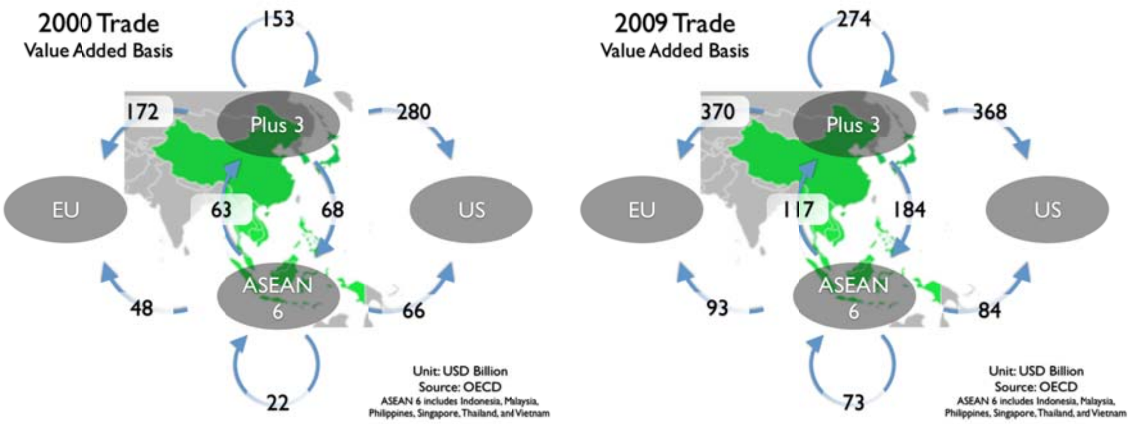


Note: ASEAN excludes Myanmar. Source: IFC.

As found in other parts of the globe, the deepening trade relation in the region has also changed structure of multilateral supply chains. The trade statistics of value added basis, estimated by the WTO and the OECD, show smaller figures than the bilateral trade statistics of the IMF, whereas the export values to the US and the EU are almost unchanged.

That suggests only parts of intra-regional trades are for final consumption in the destination countries. Significant parts are in fact processed at the destination countries to be exported again to outside of Asia. In 2009, ASEAN-6's[vi] intra-regional trade was estimated to be as much as USD 184 billion, whereas WTO-OECD indicates only USD 73 billion of value was destined to the region's final consumption. It is the same case for intra-Plus3 trades, as only USD 274 billion of the added value in trades was for final consumption in the trade destination countries, compared to USD 488 billion of nominal intra-regional trades. An estimate of USD 184 billion of value created in Plus-3 was consumed in ASEAN-6. In return, around USD 117 billion of ASEAN-6 was dedicated to consumption in Plus-3 in 2009. Those figures are much smaller than bilateral trade statistics, where Plus-3 exported USD 241 billion to ASEAN-6 and, reciprocally, ASEAN-6 exported USD 244 billion to Plus-3 in the same year.

Figure 3: Value Added Basis Trade Linkages



2.2 Investment Linkages

Studies have documented the high degree of complementary between FDI and trade, especially as the result of growing fragmentation of production combined with the creation of distribution networks spanning within the ASEAN economies and across to other parts of Asia and the world. As in the case of trade activities, total foreign direct investment into the ASEAN economies dropped in 2009, but recovered strongly and grew at the rate of around 100 percent in 2010. A large portion of the total foreign direct investment came from outside of the region. However, intra-ASEAN investment was only second to the total investment from the European Union, contributing to about 16 percent of total foreign direct investment to the region in 2010 (Table 2). This underscores the importance of intra-regional feature of direct investment in the ASEAN region. It is also worth highlighting here that investment from the Asian economies (ASEAN, Japan, Korea, China and India) made up close to 40 percent of total FDI to the ASEAN region in 2010. Owing to the low capital cost and outward investment policy initiative in China, SOEs and private firms are increasing their investments to establish off-shore operations. China's outward investments to each of ASEAN countries have notably multiplied in recent years, excluding indirect flows via Hong Kong and other transitory destinations with low tax rates (Table 3).

Table 2: Top Five Sources of Foreign Direct Investment Inflow to ASEAN

	Value			**Share to Total Inflow**		
	2008	2009	2010/p	2008	2009	2010/p
European Union	7010.1	9112.9	16984.1	14.9	22.4	20.6
ASEAN	9449.3	5222.5	12107.5	20.1	13.8	16.0
USA	3517.5	4086.7	8578.1	7.5	10.8	11.3
Japan	4129.4	3762.6	8386.1	8.8	9.9	11.1
Korea	1595.7	1471.5	3769.4	3.4	3.9	5.0

Source: The ASEAN Secretariat; p/ preliminary number.

Table 3: Stock of China's outward foreign direct investments

	2006		**2010**		**Number of times increase**
	USD mil	**% share of total Asia**	**USD mil**	**% share of total Asia**	
Total Asia*	**45,208**	**60.3**	**229,499**	**67.8**	**4.8**
Hong Kong	*42,270*	*56.3*	*199,056*	*62.8*	*4.7*
Singapore	*468*	*0.6*	*6,069*	*1.9*	*13.0*
Myanmar	*163*	*0.2*	*1,947*	*0.6*	*11.9*
Indonesia	*226*	*0.3*	*1,150*	*0.4*	*5.1*
Cambodia	*104*	*0.1*	*1,130*	*0.4*	*10.9*
Japan	*224*	*0.3*	*1,106*	*0.3*	*4.9*
Thailand	*233*	*0.3*	*1,080*	*0.3*	*4.6*
Vietnam	*254*	*0.3*	*987*	*0.3*	*3.9*
Laos	*96*	*0.1*	*846*	*0.3*	*8.8*
Malaysia	*197*	*0.3*	*709*	*0.2*	*3.6*
Korea	*949*	*1.3*	*637*	*0.2*	*0.7*
Philippines	*22*	*0.0*	*387*	*0.1*	*17.6*†
Brunei	*2*	*0.0*	*46*	*0.0*	*24.0*†

* Asia refers to Hong Kong SAR, Japan, Korea & ASEAN

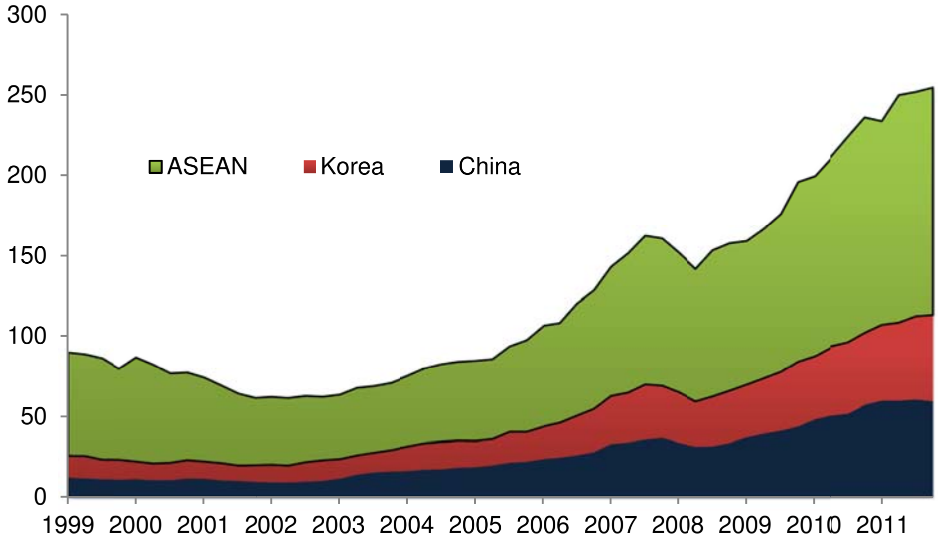
† The large increase is due to a low base in 2006

Source: Ministry of Commerce, People's Republic of China

2.3 The Rise of Regional Banks: Major Impetus for Deeper and More Rapid Global and Regional Integration

Going forward, the interconnectedness of the Southeast and East Asian economies will undoubtedly be further nourished by the globalization of the banking sector. The strengthening of intra-regional supply chains has long been associated with the cross boarder financial activities such as foreign direct investments and bank loans (Siregar and Choy (2010)). Between the end of 2000 and September 2012, banks in Japan have doubled their international claims, from USD 65 to 142 billion, to ASEAN, financing activities of local affiliates of Japanese companies over the years (Figure 4). A survey conducted by the Ministry of Economy Trade and Industry of Japan shows local entities affiliated of Japanese firms invested JPY 898 billion in ASEAN-4 countries during the fiscal year 2011, compared to 396 billion in the fiscal year 2002.[vii] Those business activities are often times supported by banks of the home country.

Figure 4: Japanese Banks' Overseas Claims (in USD billion)



A recent survey carried out by the SEACEN Centre has identified a number of regional and global banks that have strong presence in major Asian economies (Siregar & Lim (2010).[viii] Table 4 listed those major banks in term of asset size. The Hong Kong Shanghai Banking Corporation (HSBC), Citibank and the Standard Chartered Bank are among the three major international banks that have wide and extensive branch networks in the Asian region. In addition to these three international powerhouses, the region has also witnessed the emergence of its own multinational banks. Malaysian banks such as the Malayan Banking Berhad (Maybank), the Commerce International Merchant Bankers Berhad (CIMB) and the Rashid Hussain Berhad (RHB) have expanded their networks into Southeast Asian economies and beyond. A number of Singaporean banks, namely the Development Bank of Singapore (DBS), the United Overseas Bank (UOB), and the Overseas Chinese

Bank Corporation (OCBC) have achieved similar success in their efforts to become regional banks.

Table 4: Cross Border Regional Banks in ASEAN and Other Asian Economies

Country	Top 3 domestic FIs in your jurisdiction that have significant presence in the region	Top 3 foreign FIs in your jurisdiction that are originated from SEACEN member economies	Top 3 other foreign FIs (apart from originating from SEACEN member economies) that have significant presence in your country
Brunei Darussalam	The domestic banks have a presence only within the country	- Maybank (Malaysia) - UOB (Singapore) - RHB Bank Berhad (Malaysia)	- Citibank - HSBC - Standard Chartered Bank
Indonesia	- Bank Mandiri - Bank BRI - BCA	- CIMB Niaga (Malaysia) - Bank International Indonesia (MayBank Malaysia controls around 43%)	- Citibank - HSBC - Standard Chartered Bank
Korea	- None	- DBS (Singapore) - UOB (Singapore) - OCBC (Singapore)	- Citibank - HSBC - Standard Chartered Bank
Malaysia	- Maybank - CIMB Group - Public Bank	- OCBC (Singapore) - UOB (Singapore) - Bangkok Bank (Thailand)	- Citibank - HSBC - Standard Chartered Bank
Papua New Guinea	- Bank South Pacific	- Maybank (Malaysia)	- ANZ Bank (Australia) - Westpac Bank (Australia)
The Philippines	- Metropolitan Bank Corporation (Metrobank) - Philippine National Bank (PNB)	- Chinatrust (Taiwan) - Maybank (Malaysia) - Korea Exchange Bank (Korea)	- Citibank - HSBC - Standard Chartered Bank
Singapore	- DBS Bank Limited - OCBC - UOB	- Maybank (Malaysia) - Bangkok Bank (Thailand) - RHB Bank (Malaysia)	- Citibank - HSBC - Standard Chartered Bank
Chinese Taipei	- Bank of Taiwan - Taiwan Cooperative Bank - Mega International Commercial Bank	- DBS (Singapore) - OCBC (Singapore) - Bangkok Bank (Thailand)	- Citibank - HSBC - Standard and Chartered Bank
Thailand	- Bangkok Bank - Kasikorn Bank - Siam Commercial Bank	- UOB (Singapore) - CIMB Thai (Malaysia) - OCBC (Singapore)	- Citibank - HSBC - Standard Chartered

Source: Siregar and Lim (2010)

How do the regionalization and globalization of the banking industry push for further integration and coordination of macroeconomic policies in the region? Studies such as Cetorelli and Goldberg (2008 and 2010) illustrated the role of global banking system in transmitting monetary policy adjustments and adverse balance shocks across borders. In their 2008 study, Cetorelli and Goldberg demonstrate that the globalization of banking in the United States is influencing the monetary transmission mechanism both domestically and externally. Using quarterly information from all U.S. banks filing call reports between 1980 and 2005, they closely analyze the response of lending of the foreign offices of U.S. global banks to a change in domestic monetary policy and find evidence consistent with the existence of an international mechanism of transmission of monetary policy.

Furthermore, global banks played a significant role in the shock transmission in the 2007 to 2009 crisis to emerging market economies. Cetorelli and Goldberg (2010) examine the relationships between adverse liquidity shocks on main advanced-country banking systems to emerging markets across Europe, Asia, and Latin America, isolating loan supply from loan demand effects. Loan supply in emerging markets was significantly affected through three separate channels: a contraction in cross-border lending by foreign banks; a contraction in local lending by foreign banks' affiliates in emerging markets; and a contraction in loan supply by domestic banks resulting from the funding shock to their balance sheet induced by the decline in interbank and cross-border lending.

Based on these findings, it is therefore reasonable to argue that as global and regional integration of the banking system in East and Southeast Asia further deepens we could expect a greater transmission of policy and adverse shocks across these economies. Accordingly, these countries should naturally engage in closer cooperation in the monetary and exchange rate policies in particular. These issues will be elaborated further at the later part of the study.

3. CMIM and AMRO: Brief History and Recent Commitments

3.1 Chiang Mai Initiative (CMI) and Chiang Mai Initiative Multilateralization

In August 1997, at the initial outbreak of the East Asian financial crisis, Japan, together with several ASEAN economies, put forward the idea of the Asian Monetary Fund (AMF) with one of the primary objectives to provide financial support for Thailand. The initial target was to raise around US$50-60 billion from six ASEAN economies, Korea, China, Hong Kong and Chinese Taipei, and another US$50 billion from Japan[ix]. The AMF was designed to enable these economies to carry out their own surveillance and some other works of the IMF independently for its stakeholders. The proposal however never got off the ground due to strong opposition from the United States and the International Monetary Fund.[x]

A similar idea, but this time given recognition of the IMF's central role in the international monetary system, was discussed and proposed when ministers of finance and central bank deputies of fourteen Asia-Pacific economies met on 18-19 November 1997 in Manila. The so-called Manila framework included regional surveillance and financing arrangement. The initiative for regional surveillance was deliberated further during the ASEAN Finance Ministers Meeting on 28 February 1998 in Jakarta and it was agreed that the ASEAN Surveillance mechanism should be established within the general framework of the IMF and with the assistance of the Asian Development Bank (ADB).

The ASEAN Surveillance Process (ASP) became operational in early March 1999, coordinated by a small unit called the ASEAN Surveillance Coordinating Unit (ASCU) set up at the ASEAN Secretariat as well as in the ten ASEAN economies. The main tasks given to the ASP is: - to assess the most recent developments in global economies, as well as in the ten ASEAN economies' economic and financial development, -to identify any increasing risk and vulnerability; and - to raise relevant policy issues for consideration of the ASEAN finance ministers.

During the same period, regional cooperation of the ASEAN economies also expanded to include neighbouring countries in Northeast Asia, particularly China, Japan and Korea. The widened forum has been officially named "ASEAN Plus Three (ASEAN+3)", and the first ASEAN+3 Finance and Central Bank Deputies Meeting was held in Hanoi in March 1999. The Chiang Mai Initiative (CMI) was launched at a meeting of ASEAN+3 finance ministers in Thailand in May 2000. This initiative has a broad set of objectives for financial cooperation, involving policy dialogue, monitoring of capital flows, and reform of international financial institutions. However, series of bilateral swaps under CMI were found to be cumbersome and ineffective and it was therefore necessary to transform from bilateral to multilateral approach. In May 2009, the Chiang Mai Initiative Multilateralization (CMIM) was announced. Under the CMIM, the members of ASEAN+3 agreed to a self-managed reserve pooling arrangement governed by a single contractual agreement. The reserve would be held by national central banks. The disposition of those reserves however would be subjected to a single agreement.

In its initial stage, the total size of the reserve pooling under the CMIM was about US$120 billion, a significant rise from $90 billion under the CMI arrangement. During the ASEAN+3 Finance Ministers and Central Bank Governors' Meeting (AFMGM+3) in May

2012 in Manila, officials agreed to double the size of the reserve pooling to USD240 billion. Table 5 provides details of the CMIM contributions, purchasing multiples and swap facilities. Each of the five major ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand and Singapore) economies for instance contributes around US$9.1 billion and can draw around US$22.76 billion of swap facility support. From the CMIM framework, each country stands to receive a higher amount swap facility than its contribution, with the exception of China and Japan.

Table 5: CMIM Contribution, Purchasing Multiplier and Swap Facility

Countries		Financial Contribution (billion USD)		Share(%)		Purchasing Multiple	Maximum Swap Amount (billion USD)
Plus Three		**192.00**		**80.00**			**117.30**
Japan		76.80		32.00		0.5	38.40
China	**China**	76.80	68.40	32.00	28.50	0.5	34.20
	Hong Kong China		8.40		3.50	2.5	6.30
Korea		38.40		16.00		1	38.40
ASEAN		**48.00**		**20.00**			**126.20**
Indonesia		9.104		3.793		2.5	22.76
Thailand		9.104		3.793		2.5	22.76
Malaysia		9.104		3.793		2.5	22.76
Singapore		9.104		3.793		2.5	22.76
Philippines		9.104		3.793		2.5	22.76
Vietnam		2.00		0.833		5	10.00
Cambodia		0.24		0.100		5	1.20
Myanmar		0.12		0.050		5	0.60
Brunei		0.06		0.025		5	0.30
Lad PDR		0.06		0.025		5	0.30
Total		**240.00**		**100.00**			**243.50**

Source: AMRO website

3.2 **AMRO: ASEAN+3 Macroeconomic Research Office**

The ASEAN+3 Macroeconomic Research Office (AMRO), officially established in January 2011, is another step forward in the formalization of concrete commitment to policy cooperation among ASEAN economies and three major Asian economies (China, Japan and Korea).[xi] The establishment of AMRO is aimed to elevate surveillance capacity of the region to a new level. This regional research office is tasked to three major responsibilities. First is to monitor, assess and prepare quarterly reports on the macroeconomic situation and financial soundness of the ASEAN+3 economies. Second set of tasks is to assess both macroeconomic and financial vulnerabilities of the member economies, and provide assistance in timely formulation of policy recommendation to mitigate such risks. The lastly is to ensure compliance of swap requesting parties with lending covenants under the CMIM Agreement.

The primary strength of the ASEAN surveillance is expected to come from its regional approach to be carried out by a regionally based team of economists. The greater focus on the features and characteristics of the member countries' economies is the strength of regional surveillance framework. Having a team of regional experts to keep close and constant monitoring of the member economies is another comparative advantage that AMRO has to supplement the global surveillance institutions.

3.3 Economic Review and Policy Dialogue

In May 2002, the ASEAN+3 finance ministers introduced the ASEAN+3 Economic Review and Policy Dialogue (ERPD) process to apply to a larger set of East Asian countries. The purposes of the ERPD process include (i) assessing global, regional, and national economic conditions; (ii) monitoring regional capital flows and currency markets; and (iii) analysing macroeconomic and financial risks. With the establishment of CMIM, full participation in the ERPD, including the surveillance activities of AMRO, has since become a pre-requisite for any member to have access to the multilateral reserve pooling.[xii]

Since 2012, the central bank governors have been joining their respective finance ministers in the annual high level meeting, in addition to the deputy governors who has been representing the central banks/monetary authorities in the past. The participations of the Governors have enhanced further the quality of the peer-review process, as it has allowed for a more fruitful discussion over a wide range of economic and financial issues. In addition, the full participation of the central banks/monetary authorities at the highest levels is expected to further boost capacity of AMRO to carry out surveillance on one very key aspect, the financial stability. Given the highly globalized financial sectors of the ASEAN+3 economies and the macroeconomic-financial linkages, a comprehensive surveillance on the financial sector is imperative for the effectiveness of the regional surveillance.

As mandated by the Chiang Mai Executive Committee (consisting of Vice Ministers of Finance and Deputy Governors of the Central Banks), AMRO's economic surveillance reports are to be distributed only to the officials of Ministry of Finance and the Central Banks for the purpose of peer-reviews during the ERPD and not for public dissemination. The spirit/framework of peer-reviews has two primary advantages over public disclosure such as the cases of the IMF's Article IV reports. First and foremost, it facilitates more open and frank discussions among the AMRO's team of economists and the officials and other dialogue partners at the individual economies of the ASEAN+3. Second advantage is that the non-disclosure requirement has not only enabled the timely dissemination of the AMRO surveillance reports, but also more a more independent process. AMRO is only required to submit the report to the officials of the ASEAN+3 only 1-2 weeks before the high official meetings. More importantly, while the officials can rebuke the points/analyses provided in the report, those points are supposed to be aired or distributed as written responses during the ERPD. Hence, AMRO's reports are not exposed to long delays of revisions to accommodate official views, with the exception of factual mistakes. The features and traits of the ERPD process are fundamental in promoting frank policy discussions among key officials of the ASEAN+3 economies, which would be vital base for any workable macroeconomic policy cooperation among them. Next section tables a number of these feasible policy corporations.

4. Regional Policy Coordination: Possible Roles and Challenges Facing CMIM

As briefly mentioned in the Introduction section of the paper, this part of the study will propose a list of key policy areas for cooperation and presents basic premises and promises of the CMIM and AMRO in enhancing further policy coordination among the member economies. The discussion will then move on to the set of potential obstacles to fully realize the potential of this regional financial cooperation.

4.1 Regional Exchange Rate Policy Cooperation

A market-driven process, in much the same way that the process of intra-regional trade and investment has evolved in the region in the past decades, is the likely course that any form of regional exchange rate cooperation will advance in the ASEAN+3 region, which could potentially arrive at a formalization of regional monetary and exchange rate cooperation in 2030. In other words, the process of Asian monetary integration could be better characterized as being ‘evolutionary’ rather than the European ‘revolutionary’ process of monetary unification. Furthermore, the emphasis is more on policy cooperation driven by closer market integration of ASEAN, not on a more rigid form such as policy coordination adopted by the euro-zone economies.

Before deliberating on possible options for exchange rate cooperation in the region, few concrete lessons from the European Union experiences, especially during the recent global financial crisis, should be reflected on. First and foremost is the need to recognize and appreciate the diversities and the heterogeneities of the ASEAN economies and the political realities and sensitivities of each government in the region. A particular importance should also be placed on the issues and challenges facing the CLMV countries as they represent the less developed parts of any potential exchange rate policy cooperation in the region. Second, any regional rigid exchange rate policy arrangement could potentially expose the policy makers of the ASEAN economies to all important exchange rate policy options to absorb the impacts of the crisis, originated either domestically or externally. This is one of the common lessons from past and recent regional and global economic and financial crises.

With the backgrounds above, the ultimate objective of exchange rate policy cooperation in East and Southeast Asian region should be to attain stable intra-regional exchange rate while allowing for inter-regional exchange rate flexibility. What are the options for regional exchange rate policy cooperation for the region? Suggestions from recent studies are worth considering, especially from those of Wyplosz and Adams (2010). To maintain some degree of flexibility, exchange rate cooperation for ASEAN+3 economies can in fact be considered in stages. The first stage, in which ASEAN has already embarked on for almost a decade now, is a relatively informal arrangement. As discussed, the ASEAN+3 (ASEAN, China, Japan and Korea) regional economic review and policy dialogue (EPRD) was established in May 2000. The short-run strategy is therefore to fully utilize the EPRD to facilitate a more formal agreement among the economies to maintain regional exchange rate stability against corresponding weights representing each country’s specific trade structures.

Under a rising degree of trade and financial integration among the ASEAN economies (or ASEAN+3 economies), one would expect that the region’s economies are in effect gradually adopting a relatively similar basket of regional currencies. This is the second stage of this exchange rate policy cooperation of which a similar set of baskets of trading partner currencies with a relatively similar weight distribution should naturally surface driven especially by increasing trade and financial integration among the ASEAN economies in particular and the East Asian economies in general. Accordingly, one would expect that movements of ASEAN currencies against each other should stabilize during this second stage.

4.2 Managing Price Stability to Induce Stable Exchange Rate Stability

Another encouraging development is with the convergence in the overall monetary policy mandate of the ASEAN economies. In particular, price stability, together with financial stability, has become the most common and primary mandate of the monetary authorities around the region. Furthermore, under the CMIM initiative of the ASEAN+3, maintaining price and financial stability plays a vital role within the overall pursuance of balance of payment stability by the member economies. Credible price stability policy, either via explicit or implicit inflation targeting framework, would anchor and stabilize inflationary expectation and in turn help to keep foreign exchange market stable. In short, the commitment to price stability should indirectly or directly require commitment to exchange rate stability in the region. Eichengreen (2009) for instance argues for the adoption of harmonized inflation targeting (IT) policy in the region. He argues that under the IT policy framework, exchange rate policy takes a subsidiary role to the commitment of inflation target. With appropriate agreed rate of inflation target, exchange rate volatility should be limited or anchored when a harmonized IT policy regime is adopted. Four ASEAN+3 economies, Indonesia, Korea, Philippines and Thailand have adopted IT policy. However, having an explicit and harmonized IT regime may arguably be not necessary. Many countries in ASEAN+3, such as Malaysia and Singapore for instance, have well established reputation as low inflation economies without necessarily adopting a full-blown IT regime. It is sufficient that the ASEAN+3 economies together agree to a credible inflation target. This target could be a range (not necessarily a point target) and over a period of more than one year to provide some flexibility.

Here again, peer-pressure through the regular surveillance of AMRO and high level official meeting and EPRD dialogue of the CMIM should guard against inflationary policy adopted by any one of the member economies, except during recessionary or crisis period where loose macroeconomic policy stance maybe needed. To guard and optimize the outcome of the policy cooperation, the EPRD should encourage and facilitate frank policy discussion and cooperation to place more weights on the importance of regional objectives, rather than national one, on the exchange rate policies. The attainment of this policy cooperation should reduce tension that might arise due to policy of competition of non-appreciation (Wyplosz and Adams (2010)). The full participation of central bank governors in the high-level Ministerial meeting of the ASEAN+3 economies starting in 2012 should further elevate regular dialogues on exchange rate policy, including pertaining policy cooperation among the relevant authorities.

It is important to note as well here the rising influence of Chinese renminbi in the currency baskets in ASEAN. China has become the central hub of production networks in Asia, particularly in East Asia, and an important trading partner of many economies in ASEAN+3. It is only natural, therefore, that the Chinese renminbi's influence on the currencies of ASEAN+3 should continue to rise in the coming decades. In fact, an increasing number of studies have demonstrated the escalating influences of Chinese renmimbi on the Asian currencies in general. Colavecchio and Funke (2007) for instance investigated the spill-over effects from the renminbi to Asian currencies in the onshore and offshore forward markets. Similarly, Ho et al. (2005) noted that the renminbi non-deliverable forward rates had some bearing on the spot rates of the Asian currencies during the period of rising speculation on renminbi appreciation in 2003- 2004. Applying the Frankel and Wei (1994) framework, Shu, Chow and Chan (2007) claimed that since July 2005, the fluctuations of the renminbi that were independent of those of the US dollar tended to lead to movements in the same direction in other Asian currencies. In accord with Shu, Chow and Chan (2007), Pontines and Siregar (2012) also found evidences of heightened fear of appreciation among a number of major ASEAN currencies against the renminbi rather than against the US dollar. In short, one could envision the central role of the Chinese renmimbi in further enhancing and expediting natural convergence of exchange rate regimes based on similar baskets of currencies in ASEAN+3 economies.

4.3 Fiscal Sustainability

The recent experience of the monetary union in Europe in dealing with the global financial crisis is absolutely instructive for ASEAN economies, especially as the lessons of the importance of prudent and sustainable fiscal management. Years of undisciplined budget planning in many parts of the euro-zone lead into mounting cost of stock of public debt and public debt to GDP ratio. As long as the economy continues to expand and inflation is under control, the level of debt remains sustainable. However, as witnessed during the recent 2008 global financial crisis, risk of financing cost to rise heightened with sudden downturn of the market sentiment.

The Euro-zone experiences during the sub-prime crisis also taught us that fiscal policy coordination requires much more than commitments between governments of the relevant economies. Approvals from the parliaments are typically required for any decisions related to budget and fiscal policy in general, making it very difficult to have government-to-government commitments on fiscal coordination or cooperation.[xiii] Learning from the recent euro-zone experiences, adopting rigid fiscal policy coordination should therefore not be an option for the ASEAN-2030. However, close monitoring and policy surveillance on fiscal discipline can be carried out via the quarterly surveillance works of the AMRO and regular high-level ERPD meetings both at the level of Vice Minister of Finance and Deputy Governor meeting and the meeting of Minister of Finance and Central Bank Governor of the ASEAN+3 economies.

Given the importance of fiscal sustainability in the overall balance of payment, price and financial stabilities, an official commitment between the ASEAN+3 governments to conduct frequent assessment of debt sustainability at least once a year during normal time and more frequently in the event of financial and economic turbulence is to be carried out jointly by the authorities and AMRO, with possible supports from global multilateral surveillance institutions, should be pursued. For this surveillance to be meaningful and effective, a comprehensive analysis on the soundness and sustainability of individual members' budgetary and fiscal positions should be regularly conducted.

The outcome of the fiscal sustainability analyses should then be tabled and discussed during ERPD and other high level meetings of CMIM officials, such as the annual meeting of ASEAN+3 finance ministers and central bank governors. As in the case of balance of payment issue, exchange rate and monetary policy concern and financial market fragility, thorough discussions on budget/fiscal policy have increasingly become a predominant feature of quarterly surveillance report of the AMRO.

4.4 Cross-border Cooperation in Banking Supervision

With the financial systems becoming increasingly integrated globally, a robust ASEAN framework of financial stability is required. It is now a well-known fact that globalized banks play a crucial role in the international transmission of monetary policies and economic shocks.[xiv] The lack of cross-border supervision cooperation has led to information asymmetries on cross-border risks leading to an under-appreciation by supervisors and regulators of the underlying systemic risks and interconnections (Kodres and Narain (2009)). It is also clear that asymmetric information which prevails among supervisors and regulators in different jurisdictions leads to premature and uncoordinated responses to financial crisis (Nijathaworn (2010)). In addition, in normal times, cross-country supervisory cooperation and coordination are needed to overcome loopholes, such as currency exchange, or replacement of domestic credit to foreign direct credit in foreign currency.

Thus, one obvious route towards an ASEAN+3 framework of financial stability is to develop effective regional supervision of cross-border banks through policy cooperation and coordination among ASEAN+3 supervisors; an early existence of that is the college of supervisors. The college of supervisors is defined as a "permanent, although flexible, structure for cooperation and coordination among the authorities of different jurisdictions responsible for and involved in the supervision of the different components of cross-border banking groups, specifically large groups" (The Committee of European Banking Supervisors (CEBS (2009)). As a general rule, the establishment of a supervisory college should be considered for significant financial institutions in terms of size, interconnectedness with other components of the financial system and/or the roles they play in the market which may cause systemic impacts on the economy's financial system, hence affecting the region's financial stability.

The successful implementation of the college of supervisors depends mostly on the willingness to exchange information of all stakeholders. The idea of sharing information across border arises from the recognition that even when financial stability is achieved at the national level, it does not guarantee stability of the regional/international financial systems. However, exchange and dissemination of vital information on financial institutions are often difficult for supervisors due to the difference of jurisdictions, rules and constitutional limits. Moreover, conflicting surveillance assessments should be anticipated owing to the enormous diversities of operational structures among the banking sector in different economies. Given the sensitivity of the information that is required for sharing and dissemination (such as stress tests results and risk assessments on the cross-border institutions (Saccomanni (2009)), supervisors may need to weigh and balance the issues pertaining to national interests. In some circumstances, when problems are beginning to surface, there may be a divergence of interests where the home or host supervisors seek to ring-fence problems at the national level and hence, impede the early detection of emerging group-wide cross border problems. Particularly during a crisis, in defending national interests, national supervisors may not be willing to disclose information on vulnerabilities of financial institutions they supervise (de Larosiere Group (2009)).

As a surveillance unit of the ASEAN+3, AMRO has regularly highlighted potential risks faced by the banking sector of the region. The role and impact of foreign banks' claims to the regional economies have been closely monitored and placed predominantly in the quarterly surveillance reports of AMRO. During the bi-annual meetings of Vice Ministers of Finance and Deputy Governors of Central Banks, issues and concerns arising from the international bank claims have been tabled among potential sources of vulnerabilities undermining macroeconomic and financial stability of the region. Past reports for instance highlighted the relatively high and volatile shares of cross-border lending by the foreign banks, including the Eurozone banks, to the ASEAN+3 economies. The surveillance reports have also provided further analyses on the impacts of these loans on the domestic economies, particularly on the liquidity of the domestic banking sector and the asset markets, such as stock exchange and real estate sector. In mid-2012, AMRO has also submitted in-house thematic study on the interconnectedness of the banking sectors of the ASEAN+3 economies. The study pointed out the regional and global networks of ASEAN+3 banks and the increasing role that they play in financing intra-regional trade and investment. Accordingly, the study stressed the need to enhance supervisory capacities in the region, including cross-border cooperation among the supervisors.

5. Enforcing Multilateral Approach amidst Presence of Bilateral Arrangements

Over the past few years, numerous bilateral swap arrangements have been established among the ASEAN+3 economies (Table 6). The PRC and Japan, for instance, have extended swap facilities to Indonesia, Malaysia, Thailand, and Korea over the years to mitigate potential liquidity concerns facing recipient economies, and also to safeguard and promote bilateral trade activities. It is also interesting to note that in some cases the size of the bilateral swap facilities is well above the maximum swap facility extended by the CMIM. Malaysia, for instance, secured a RMB180 billion (or about $30 billion) bilateral swap arrangement with the People’s Bank of China in February 2012 for a period of three years (until February 2015). This swap facility is indeed larger than the $22.76 billion maximum swap facility that Malaysia is entitled to from the CMIM facility.

With the multilateralization of the Chiang Mai initiative, the current challenge is not only to avoid potential conflicts between these two approaches, but also to find ways to create synergy between these two types of facilities. Without concrete coordination there is a real risk that the CMIM is undermined by the bilateral facilities. After all, what would be the incentive for any ASEAN+3 economies to apply for the CMIM facility, especially given the size limitation? How can a multilateral swap facility like the CMIM become an attractive facility given a choice of bilateral swap facilities and IMF funding facilities, without leading to moral hazard, while preventing “facility shopping”? Non-credible multilateral approach undermines the commitment to policy cooperation discussed earlier.

Bilateral and CMIM swap arrangements can indeed complement each other if they are well coordinated. More importantly, decisions to extend both bilateral and CMIM swap facilities should be taken consistently and, as much as possible, under one general framework. In particular, a common framework for bilateral and CMIM swap facilities among the ASEAN+3 economies can be agreed upon in a joint memorandum of understanding. As part of broad guidelines, any request from a member of the ASEAN+3 economies for a bilateral swap facility from another member of the ASEAN+3 should first be submitted to the CMIM facility for consideration. In other words, the request should go through an evaluation and decision process under the CMIM framework. Should the request be approved by the CMIM's Executive Committee, the requesting member economy would then be entitled to receive its available maximum swap amount. In the event that the available CMIM swap amount is less than the amount requested or needed, the bilateral swap can supplement or top-up the difference.

The other synergy of bilateral frameworks and the CMIM is found in the surveillance. Liquidity provision would never be without risks in both cases, especially that for economies in crises. On the other hand, foreign reserves are assets of the countries, ultimately of the citizens of the countries. The authorities should, therefore, be accountable in crediting the counterpart with exposing the foreign reserves to risks. Multinational surveillance, as AMRO conducts, can be an effective tools even in case of bilateral arrangements for authorities to satisfy accountabilities; it is not only effective but also less costly than conducting surveillance bilaterally. In that regard, multilateral frameworks such as the CMIM would be a core foundation of bilateral arrangements.

Table 6: Recent Bilateral Swap Involving ASEAN+3 Economies

Signing date/Expiry date	Countries	Type of Swap		Amount
May 2 2012/ May 3, 2015	Bangko Sentral ng Pilipinas (BSP) and Bank of Japan (BOJ)	Bilateral Swap Arrangement (BSA)	Under the $6.5 billion BSA, the BOJ would provide the BSP up to $6 billion in financial assistance in exchange for a corresponding amount of Philippine currency in case Manila's foreign exchange reserves drop to a level that risks a run on the peso. As a two-way swap arrangement, the BSP also would provide the BOJ up to $500 million in assistance in exchange for a corresponding amount of Japanese yen if Tokyo similarly were faced with balance of payments (BOP) difficulties.	$6.5 bn: BOJ→BSP 0.5 bn BSP→BOJ.
October 19, 2011/ effective until the end of October 2012	Bank of Japan and the Bank of Korea	Yen-Won Swap Arrangement	Non-crisis situation, to stabilizing regional financial markets through supplying short-term liquidity.	30 billion US dollars equivalent in Yen.
	BOK jointly with Ministry of Strategy and Finance and Japan's finance ministry	Won-USD Swap Arrangement	Mutual benefits and financial stability to enhance the country's sovereign credit condition.	40 billion dollars (from 10 billion dollars).
June 22, 2010/ July 3, 2013	Bank of Japan and the Bank of Korea	Yen-Won Swap Arrangement	Bilateral yen-won swap arrangement, for supplying short-term liquidity and enhance mutual cooperation between the two central banks.	3 billion US dollars equivalent in yen and won.

Table 6: (continued)

Signing date/Expiry date	Countries	Type of Swap		Amount
March 22, 2012/ March 21, 2015	People's Bank of China and the Reserve Bank of Australia	Bilateral Local Currency Swap	For the purpose of promoting bilateral financial cooperation, facilitating bilateral trade and investment, and safeguarding regional financial stability	200 billion yuan or A$30 billion.
March 20, 2012/ March 19, 2015	People's Bank of China and Bank of Mongolia	Bilateral Local Currency Swap Supplemental Agreement	The two sides believe that this renewed arrangement will help facilitate bilateral investment and trade and safeguard regional financial stability.	Increased from original 5 billion yuan or 1 trillion MNT to 10 billion yuan or 2 trillion MNT.
February 21, 2012/ February 20, 2015	People's Bank of China and the Central Bank of the Republic of Turkey	Bilateral Local Currency Swap	For the purpose of promoting bilateral financial cooperation, facilitating bilateral trade and investment, and maintaining regional financial stability.	10 billion yuan or 3 billion Turkish lira.
8 February 2012/ 7 February 2015	People's Bank of China and Central Bank of Malaysia	Bilateral Local Currency Swap	The two sides believe that this renewed arrangement will help promote investment and trade between the two countries and safeguard regional financial stability.	Increased size from 80 billion yuan/MYR40 billion to 180 billion yuan/MYR90 billion.
January 17, 2012/ January 16, 2015	People's Bank of China and Central Bank of the UAE	Bilateral Local Currency Swap	For the purpose of promoting bilateral financial cooperation, facilitating bilateral trade and investment, and maintaining regional financial stability	The amount of the agreement is 35 billion yuan or 20 billion dirham.
December 22, 2011/ December 21, 2014	People's Bank of China and the Bank of Thailand	Bilateral Local Currency Swap	For the purpose of promoting bilateral financial cooperation, facilitating bilateral trade and investment, and maintaining regional financial stability	The amount of the agreement is 70 billion yuan or 320 billion Thai Baht.
December 23, 2011/	People's Bank of China and	Bilateral Local Currency	For the purpose of promoting bilateral financial cooperation, facilitating bilateral trade and	The amount of the agreement is

December 22, 2014	the State Bank of Pakistan	Swap	investment, and maintaining regional financial stability.	10 billion yuan or 140 billion Pakistan Rupee.
October 26, 2011/ October 25, 2014	People's Bank of China and Bank of Korea	Bilateral Local Currency Swap	The two central banks have also agreed to explore the possibility of converting some swap currencies into reserve currencies. The two sides believe that this renewed arrangement will help enhance bilateral financial cooperation, promote investment and trade between the two countries, and safeguard regional financial stability.	Increase in size from 180 billion yuan/38 trillion won to 360 billion yuan/64 trillion won.

Both parties—the recipient and the lender—can benefit from this proposal. The eligible recipient economy is in position to receive a swap amount larger than its maximum swap amount under the CMIM; the swap provider can take comfort in the due process of surveillance and approval under the CMIM facility, before having to extend the fund. Without this arrangement, the swap providing economy would have to rely on its own surveillance process, before the swap takes place and afterwards, to decide on the request. Furthermore, the swap-providing economy must bear the whole amount of the swap requested under the non-cooperative framework. However, under a single contract of multilateral swap facility, the swap provider does not have to shoulder the risk of the full amount, as some of the funds fall under the multilateral facility.

6. Brief Concluding Remarks

Prudent and coherent macroeconomic policies are mandatory, not only to provide much-needed conducive climate for growth but also to steer the economy away from economic crisis or turbulent domestically or externally originated. In a globally integrated region, the consequences and trade-offs of domestic policies may not only be endured locally, but also could easily be transmitted abroad. Avoiding potentially derailing economic and financial crises, such as experienced in 1997 East-Asian and 2008 sub-prime financial meltdowns, is indeed imperative.

The primary objective of our study is to list potentially catalytic roles that CMIM, a regional financial arrangement among ASEAN+3 economies and its surveillance unit (AMRO) can play in enhancing macroeconomic policy cooperation in this region. Amidst the increasingly connected ASEAN+3 economies regionally and globally, these regional financial arrangements will not only be a first layer of defence mechanism, supplementing the global facility such as those provided by the International Monetary Fund, to deal with economic and financial shocks, but more importantly, they can be a natural base to foster the much-needed macroeconomic policy cooperation among these East and Southeast Asian economies.

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Appendix:

Table Appendix 1: Days Required for Trade Procedure.

Time to import (days)													
Year	Brunei Darussalam	Cambodia	Indonesia	Lao PDR	Malaysia	Philippines	Singapore	Thailand	Vietnam	China	Hong Kong SAR, China	Japan	Korea, Rep.
2006	-	54	27	65	10	18	4	22	23	26	17	11	12
2007	19	45	27	65	10	18	4	22	23	24	5	11	12
2008	19	45	27	37	10	18	4	14	23	24	5	11	10
2009	19	29	27	37	10	16	4	13	23	24	5	11	8
2010	19	29	27	37	10	16	4	13	21	24	5	11	8
2011	20	26	27	37	10	14	4	13	21	24	5	11	7
2012	15	26	27	33	10	14	4	13	21	24	5	11	7
2013	15	26	23	26	8	14	4	13	21	24	5	11	7
Time to export/import (days)													
Year	Brunei Darussalam	Cambodia	Indonesia	Lao PDR	Malaysia	Philippines	Singapore	Thailand	Vietnam	China	Hong Kong SAR, China	Japan	Korea, Rep.
2006	-	48.5	24.5	60	11.5	17.5	4.5	23	23.5	24.5	15	10.5	12
2007	23	41	24.5	60	11.5	17.5	4.5	23	23.5	22.5	5.5	10.5	12
2008	23	41	22.5	38	11.5	17.5	4.5	15.5	23.5	22.5	5.5	10.5	10.5
2009	23	25.5	22.5	38	11.5	16	4.5	13.5	23.5	22.5	5.5	10.5	8
2010	23	25.5	22.5	38	11.5	16	4.5	13.5	21.5	22.5	5.5	10.5	8
2011	22.5	24	22	37	11.5	14.5	4.5	13.5	21.5	22.5	5.5	10.5	7.5
2012	17	24	22	33	11.5	14.5	4.5	13.5	21.5	22.5	5	10.5	7
2013	17	24	20	26	9.5	14.5	4.5	13.5	21	22.5	5	10.5	7

Source: the International Finance Corporation, Doing Business Database

End Notes:

[i] The ASEAN+3 includes ten Southeast Asian (ASEAN) economies (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Thailand, Singapore, and Vietnam) and three East Asian partners (the Plus-3 (China, Japan and Korea)).

[ii] Australia and New Zealand are under one FTA with ASEAN, and each of other countries has FTAs with ASEAN. Those 16 countries are called ASEAN+6 as a group.

[iii] It was originally known as Trans-Pacific Strategic Economic Partnership Agreement (TPSEP).

[iv] Some of other Asian countries show their interests in TPP, including China, whose spokesman mentioned in June 2013, ahead of the China-US summit, that they were considering the benefits and possibility of participation in TPP.

[v] IFC's "Doing Business, Trading Across Borders" database measures the procedural costs for exports and imports with standardsized figures. It counts any procedure during the period between the contractual agreement of trades and the delivery of goods.

[vi] ASEAN-6 includes Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam.

[vii] Survey of Overseas Business Activities by the Ministry of Economy, Trade and Industry (METI) of Japan captures data of foreign affiliates in which Japanese corporations invest 10% or more of the capitals; in which subsidiaries ,which are funded more than 50% by Japanese corporations, invest more than 50% of the capitals; or in which Japanese corporations and subsidiaries invest more than 50% of capitals. The survey FY2011 obtained 4,258 effective answers out of 6,127 target firms. (METI, http://www.meti.go.jp/english/statistics/tyo/kaigaizi/index.html).

[viii] The South East Asian Central Banks (SEACEN) Research and Training Centre commenced in 1973. There are currently 19 member central banks and monetary authorities from Pacific economies to East and South Asia. In addition to ASEAN-10 economies, the members include central banks from South Asia (Sri Lanka, Nepal and India), East Asia (Korea, Chinese Taipei and People's Republic of China), Mongolia, Fiji and Papua New Guinea.

[ix] Six ASEAN economies here include Brunei, Indonesia, Malaysia, Philippines, Thailand and Singapore.

[x] Refer to Manupipatpong (2002) for more insight to background perspectives of surveillance process in ASEAN.

[xi] The initiative of establishing an independent regional surveillance unit was first tabled during the Economic Review and Policy Dialogue of the ASEAN+3 economies in Turkey in 2005.

[xii] This is clearly stipulated in Article 10.1.2 of The CMIM Agreement.

[xiii] In September 2011, approvals of 17 euro-zone parliaments were needed to introduce a greater flexibility in the utilization of the European Financial Stability Facility (EFSF) to support the banking sector and the sovereign debts.

[xiv] The importance of supervisory cooperation is again coming to the forefront following the recent subprime crisis. This time around, the issue is on cross-border supervision --why it has not progressed to what it should be, to deal with the scope and complexity of financial development (BIS (2009).