Banyan | A rather flimsy firewall

Remaking the global financial architecture in Asia's image proves easier said than done

WATCHING Europe flirt with financial catastrophe has not erased memories in Asia of the region's own meltdown 15 years ago. Indeed, it has served as a reminder of the dangers lurking out there. So the effort to build regional financial defences carries on, albeit at the snail's pace typical of Asian multilateral diplomacy. Bold talk of an "Asian Monetary Fund" has yielded something more modest, called, with that also-typical flair for catchy nomenclature, the Chiang Mai Initiative Multilateralisation (CMIM). This is an agreement among the ten members of the Association of South-East Asian Nations (ASEAN), plus China, Japan and South Korea, to come to each other's aid in a liquidity crisis. It is an impressive achievement in regional co-operation by the so-called ASEAN+3, and in March took a big step forward. Whether it is of any practical use remains an open question.

The impetus for all this was the deep anger the IMF generated with its handling of the 1997-98 bail-outs. The austerity it imposed was seen as ineffective as well as painful, and entry into an IMF programme as carrying a humiliating stigma. The analysis may be unfair. But one 1998 photograph summed up a regional perception of IMF high-handedness. It showed its boss at the time, Michel Camdessus, standing with his arms folded, watching the late Suharto, Indonesia's soon-to-be-deposed president, sign what might have been an unconditional surrender. Add "cultural insensitivity" to the charge sheet.

In an effort to demonstrate Asian solidarity, a hunt was instigated for a regional alternative to the fund. The enthusiasm, however, soon collided with two big obstacles. First, the scale of the rescues needed in 1997-98 by Thailand, South Korea and Indonésia seemed vast at the time, even if they have since been dwarfed in subsequent (non-Asian) crises. Second, the basis of Asian regionalism has been non-interference in each other's affairs. Governments would resent being told by their neighbours to put their economic houses in order.

The first go at co-operation, the Chiang Mai Initiative of 2000, was to expand and formalise a network of bilateral swap agreements between central banks, under which they promised to provide each other with liquidity. This was accompanied by a "dialogue" on economic policy, which, as one participant puts it, amounted at best to no more than information-sharing, at worst to a "beauty contest", with a lot of cosmetic data-enhancement.

In 2010 the 13 countries "multilateralised" the CMI, ie, turned it into a formal arrangement binding them all. Because the money remains in the individual central banks, the CMIM is a set of promises not a fund. They also agreed to set up the ASEAN+3 Macroeconomic Research Office (AMRO). This opened the following year in Singapore. Its director is Wei Benhua, a veteran of China's central bank. It is charged with providing quarterly "surveillance" reports on member-country economies, as an early-warning system, as well as being ready to respond to a crisis with rapid analysis. The size of the CMIM is $120 billion. But Mr Wei says that, at a meeting in Phnom Penh in late March, it was agreed that this will be doubled.

These days, even $240 billion is not very much-one reason for doubting the CMIM'S value. Neither it nor the CMI has ever been used. South Korea did turn to China and Japan (as well as America) for help during the global crisis of late 2008, but it arranged direct swap lines with their central banks. More than the money itself, the credibility offered by the backing of such countries helped steady things. Mr Wei points out that Asia is building defences "in peacetime". That is commendable, but it does not ensure they are strong enough. Each CMIM country has access to the amount it has committed times a multiple (five for poor countries, 2.5 for the better-off ASEAN members, one for South Korea and 0.5 for China and Japan).

So for Thailand and Indonésia, for example, $11.4 billion is available. Compare that with their respective bail-outs in 1997 and 1998 of $17.2 billion and $42.3 billion (equivalent, in 2012 dollars, to $24.4 billion and $59.1 billion). Or compare it with Europeu bail-out funds, worth several hundred billion dollars and still criticised for being too small. And the research office itself is tiny-just 12 economists, to be increased, Mr Wei hopes, to 16.

That helps explain another obstacle to use of the CMIM. Bom of frustration with the IMF, it remains linked to the fund's conditions. Unless a country subjects itself to an IMF programme, it may draw on only 20% of the available liquidity from other central banks. The proportion will be increased, but only to 30% this year and 40% from 2014. Countries that see themselves as potential crisis-victims want to shake off the fund's shackles. Potential creditors find them rather comforting.

Thirdly, the fast-growing regional interdependence may seem to demand a regional financial-crisis response. But the more interlinked the region, the greater the risk of contagion and of neighbours' inability to help each other. In 1997 South Korea promised to contribute to Thailand's bail-out. A few months later it had to withdraw as the financial crisis engulfed it.

A fitter fund?

The idea of an Asian Monetary Fund has not gone away, but even its proponents now see it as a distant dream, and as a supplement rather than an alternative to the IMF. So enhanced regional co-operation may matter less than the effort to reform the fund itself. Also at the end of March, the five big emerging-market economies-the BRICS, including índia and China-met in Delhi. They complained that a 2010 reform of the IMF giving developing-country members a greater weight is being implemented too slowly, and threatened to withhold the increased financing the IMF has asked for to cope with Europe's needs. Since 1997-98, the balance of financial power has shifted in emerging markets' and Asia's favour. Asia cannot beat the IMF; maybe it can change it. •

Fonte: The Economist, London, v. 403, n. 8779, p. 52, April. 2012.