

The Future of the IMF and of Regional Cooperation in East Asia

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I. The purpose of this paper is to discuss :

- Evolution of regional financial arrangements (BSAs and SRPA) in East Asia
- The potential role of regional financial arrangements in a new international financial architecture
- Complementary relationship between the IMF and SRPA
- Viability of the SRPA as a building bloc of a international financial architecture

*II. Monetary and Financial Cooperation In East Asia**

- ◆ The three pillars of a regional arrangement for financial and monetary cooperation : a liquidity support system ; a cooperative arrangement for exchange rate policy, and a surveillance system
 - ASEAN+3 has succeeded only in constructing BSAs, a mutual liquidity support system which will be restructured as a Self-managed Reserve Pooling Arrangement(SRPA) for ASEAN 5 and plus 3

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- ◆ The SRPA is a multilateral arrangement governed by a single contractual agreement
 - A total size of \$ 80 billion in pooled reserves contributed by ASEAN 5 and plus 3
 - A soft surveillance system : the Economic Review and Policy Dialogue (ERPD)
 - The 20 percent IMF rule : any member drawing more than 20 percent of its borrowing limit is subject to the IMF conditionality

- Other key aspects of the SRPA including borrowing accessibility, activation mechanism, decision making rules, and lending covenants will be worked out
- ◆ Once a credible regional surveillance system is constructed, the SRPA will become a *de facto* regional monetary fund more or less molded after the IMF
 - The SRPA will help sustain stability of financial markets in East Asia
 - It may lay the foundation for monetary cooperation and integration in the long run

III. Reform of the International Financial Architecture and the SRPA

III-1. Room for regional financial arrangements in a new international financial system?

- ◆ Countries in different regions may emulate the EU's success in monetary and financial integration
- ◆ Regional financial arrangements may have comparative advantage in managing and preventing a capital account crisis

- ◆ **Regional Financial Arrangements could complement the role of the IMF by providing financial and human resources**
- SRPA could supplement the limited capacity of the IMF for surveillance of Asia and Pacific region (ASEAN+3, Australia, India, New Zealand, Taiwan, and Hong Kong)

- ◆ Moral hazard concerns of potential laxity in lending at the SRPA has proved to be unwarrantated
 - The architects of the SRPA follow the best practice in formalizing conditions and covenants of lending
 - Imposition of the 20 percent IMF rule

III-2. Is the SRPA a viable building bloc of a new international financial architecture

- ◆ The ongoing global financial crisis will test viability of the SPRA
 - The size of the reserve pool of the SRPA is too small to be taken seriously by the market
 - The borrowing procedure is too complicated to serve as a source of emergency borrowing
 - It does not have its own surveillance system: it depends on the IMF

- ◆ **The IMF has established a new Short-term Lending Facility (SLF)**
 - IMF has more than \$ 200 billion for loanable funds
 - Policy conditions attached to the SLF will be minimal
 - ASEAN+3 members may prefer approaching the IMF to the SRPA for short term loans
- ◆ **Korea and Singapore has established temporary currency swaps with the Fed**
 - The amount is \$30 billion.

III-3. What can be done?

- ◆ **Restructuring of the SRPA**
 - Doubling or tripling the size
 - Streamline the borrowing procedure comparable to that of IMF SLF
- ◆ **Division of labor between the IMF and SRPA**
 - The IMF consolidates its financial and human resources to focus on multilateral issues, global and cross-country surveillance
 - East Asia's SRPA specializes in monitoring and analyzing country and region wide economic developments

- Participation of the IMF in various fora of ASEAN+3 including the AFMM as an associate member
- Providing technical assistance to ASEAN+3 for expanding the scope and improving the quality of ERPD's research and surveillance