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

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1. 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.

*Park and Wyplosz 2008*
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
- 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 unwarranted

- 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