A Regional Monetary Fund and the IMF

Eiji Ogawa

First version: May 8, 2001
This version: October 2, 2001

* This paper was prepared for the Conference on New Regionalism in East Asia on May 10-12, 2001 in Seoul and Chunchon, Korea. I appreciate Fred Y. K. Kwan and Kyungosoo Kim for their useful comments.

* Professor of Department of Commerce, Hitotsubashi University. 2-1 Naka, Kunitachi, Tokyo 186-8601 Japan, e-mail: cc00104@srv.cc.hit-u.ac.jp.
Abstract

This paper points out that the IMF’s financial supports to the crisis-hit countries in the Asian currency crisis were not in quantity and quality enough to prevent and stop the contagion of the first Thai baht crisis to other East Asian countries. The shares of the IMF were around one-third of the total financial supports to the recipient countries in the Asian currency crisis while the shares of bilateral financial supports were nearly 50% of the total. Moreover, market participants did not so well estimate policy programs that the IMF suggested and approved as conditionality.

We have the four rationales of a regional monetary fund. A regional monetary fund is needed to supplement the IMF’s financial supports in quantity. Secondly, East Asian countries are underrepresented in the quota formula of the IMF. Thirdly, contagions of currency crises were geographically concentrated in the Asian currency crisis. It is natural that East Asian countries should make a regional grouping for financial support to a neighboring country. Lastly, regional surveillance has advantages in both monitoring capital flows among regional countries and understanding regional sociopolitical background.

However, we meet two criticisms for a regional monetary fund, which include both moral hazard of governments of regional countries under a regional monetary fund and duplication of a regional monetary fund with the IMF. A regional monetary fund should not assign a softer conditionality to a crisis-hit country. In addition to the IMF, *ex ante* regular mutual surveillance based on a regional monetary fund gives the member countries a peer pressure so as to conduct appropriate macroeconomic policy. Because a regional monetary fund will conduct a regular consultation process and mutual surveillance to give a peer pressure to each other, regional surveillance based on a regional monetary fund should have a relative advantage in comparison with the IMF. A regional monetary fund is not duplication with the IMF but supplementary to the IMF.
1. Introduction

East Asian countries faced in contagion of currency crisis and experienced the Asian currency crisis after the Thai baht crisis occurred in July 2, 1997. The currency crisis, which was accompanied with financial crisis, was attributed to excess capital inflows to domestic private sectors under fragile financial system rather than to excess external debts of domestic public sectors. Accordingly, the currency crisis was regarded as a new type of currency crisis that was different from the first and second generation models of currency crisis (Krugman (1979), Obstfeld (1994)). The crisis-hit countries faced in losses of markets’ confidence in their economies, which brought about abrupt and large capital outflows from them. It is important that governments of the countries could not recover any markets’ confidence in their economies immediately after the International Monetary Fund (IMF) decided its financial supports to the countries although they agreed with the IMF to conduct policy programs approved by the IMF.

We learnt some lessons from the Asian currency and financial crises. One of the important lessons is that we should stop the first currency crisis in a country in order to prevent the currency crisis from spreading to other countries in a region. The crisis-hit countries have been restructuring and rebuilding a robust domestic economic and financial systems that are proof against currency and financial crises. Also, the IMF has established new special lending facilities such as the Supplemental Reserve Facility and the Contingent Credit Lines (CCL). We are now reconsidering an international financial architecture that can prevent currency and financial crises and their contagion to other counties in the future and can rescue crisis-hit countries with a minimum cost that they will be burdened with if they face in the currency crisis.

After we experienced the Thai baht crisis in 1997, Japan and ASEAN countries proposed to establish a regional monetary fund, which was called as the Asian Monetary Fund. The proposal was that East Asian countries would have its own regional monetary fund, which
would have supplemented the IMF in financial supporting functions in order to support a regional financial cooperation in East Asia. However, it has been phased out because of some skeptics in the IMF and the United States. The skeptics have pointed out both a possible moral hazard caused by its loose conditionality and duplication of the proposed regional monetary fund’s functions with those of the IMF.

This paper considers some merits of a regional monetary fund for East Asian countries as well as criticisms against it. It is pointed out that the IMF had some problems such as insufficient resources of financial supports from difficulties that Thailand, Indonesia, and Korea faced in when they requested financial supports to the IMF. Based on the problems, we reconsider coexistence of the IMF and a regional monetary fund in order to solve the problems. Moreover, we argue how we can solve problems of regional monetary fund that include moral hazard under a regional monetary fund and duplication of a regional monetary fund with the IMF.

2. The financial supports of the IMF in the Asian currency crisis

When the Thai government requested the IMF for its financial support to Thailand, the IMF calculated the financing gap between its loss due to forward contracts of the central bank and non-rollover of private bank credits to be $17.2 billion. Accordingly, the IMF decided a financial support program for Thailand on August 20, 1997. However, the access limit of Thailand was only $4.0 billion that was equivalent to 505% of its quota in the Stand-By Arrangement. Also the World Bank and the Asian Development Bank gave Thailand additional financial supports ($2.7 billion). Japan, other East Asian countries, and even Australia filled the gap by parallel lending in a form of bilateral financial supports that contributed to $10.5 billion. The bilateral financial supports had 61% of share in total financial supports to Thailand.

Because the Thai baht crisis had a contagion effect on the Indonesian rupiah, the
Indonesian government also requested the IMF for its financial support to Indonesia. The IMF decided a financial support program for Indonesia on November 5, 1997. The financial support program was to give Indonesia $10 billion of financial support under the Stand-By Arrangement. The amount was equivalent to 490% of its quota. Also, the World Bank and the Asian Development Bank gave Indonesia $8.0 billion of financial supports. In addition, seven countries such as Japan and the United States established supplementary credit line as a second line of defense for Indonesia. The bilateral financial supports amounted to $18.0 billion, the share of which was 50% in the total financial supports to Indonesia. In July 1998, the IMF decided to give Indonesia additional financial supports under the Extended Fund Facility. The additional financial supports, which included those from bilateral financial supports as well as the World Bank and the Asian Development Bank, amounted to $42.3 billion. The share of the bilateral supports was 50% in the total financial supports to Indonesia also at the second time.

Moreover, Korean economy faced in a currency crisis in November. On December 4, 1997, the IMF agreed with the Korean government about a policy program to give financial supports to Korea. The IMF decided to give $21.1 billion of financial supports under the Stand-By Arrangement, which included $16.0 billion of one-year short-term lending. The amount was equivalent to nearly twenty times as much as its quota. Also the World Bank and the Asian Development Bank prepared $14.2 billion of financial supports for Korea. Korea received bilateral financial supports as a second line of defense from Japan, the United States, and European countries. The share of the bilateral financial supports was 40% in the total financial supports to Korea.

It is true that financial supports of the IMF have been increasing in recent years as De Gregorio et al. (1999) pointed out. However, Table 1 shows that the share of the IMF was around one-third of the total financial supports to Thailand, Indonesia, and Korea. On one hand, the shares of the bilateral financial supports were nearly 50% of the total financial
supports to the crisis-hit countries. Available borrowings from the IMF were limited to 300% of quota in the Stand-By Arrangements combined by the Extended Fund Facility before the Mexican currency crisis at end of 1994. However, the IMF decided to give Mexico its financial support that amounted to 500% of its quota. The IMF decided to give the same times quota to Thailand and Indonesia in the Asian currency crisis though it decided to give nearly 20 times quota of financial supports to Korea.

Some regarded the limits based on countries’ quota (for example 500% of quota) as questionable for rescuing the crisis-hit countries. The limits are an important problem of the IMF’s financial supports. Ito (1999) pointed out that the IMF was too optimistic in making an assumption about a size of foreign currency denominated debts and rollover of private debts in the case of Thailand and that this was one of reasons why the IMF program could not stabilize the Thai baht by stopping its depreciation and overshooting. Moreover, the Asian crisis had a background where the crisis-hit countries had higher ratio of short-term external debts. It was important that the countries had to keep rollover of the short-term external debts when they faced in the currency crisis. Domestic financial institutions faced in liquidity crisis related with failure to rollover the short-term external debts. The liquidity crisis had the same characteristics as bank runs. Therefore, it is necessary to give liquidity shortage countries enough large financial supports in order to rollover the short-term external debts to their domestic financial institutions.

The IMF introduced the Supplementary Reserve Facility in December 1997 to supplement financial resources made available under both the Stand-By Arrangement and the Extended Fund Facility. Its objective is to provide financial supports for exceptional balance of payments difficulties owing to a large short-term financing need resulting from a sudden and disruptive loss of markets’ confidence. In the Supplementary Reserve Facility, no limits are set for lending crisis-hit countries but financing is committed for up to one year. Moreover, the rate of charge on financing under the Supplementary Reserve Facility is
subject to a surcharge of 300 basis points above the usual rate of charge on other IMF loans for the first year.

In the case of Korea, the IMF decided to give Korea its financial supports that included 500% of quota in the Stand-By Arrangements and 1500% of quota in the Supplementary Reserve Facility on December 4, 1997. In addition, it was decided that Japan, the United States, and European countries set as much as $23 billion of second line of defense because the IMF’s financial supports were insufficient for rescuing Korea. However, the large amounts of financial supports could not recover markets’ confidence in the Korean won and could not stop depreciation of the Korean won. On December 24, it was made agreements among the Korean government, the IMF, and international commercial banks that the international commercial banks rolled over their short-term loans to private sectors. The agreements could contribute to stopping the further deepening of the currency crisis in Korea. The effects of the agreement were contrast with those of the first financial supports approved by the IMF.

The IMF established the CCL in 1999 after the world economy experienced the Russian crisis in 1998 as well as the Asian crisis. The CCL are designed to provide short-term financing to help countries overcome exceptional balance of payments problems arising from a sudden and disruptive loss of markets’ confidence. The CCL are a preventive measure solely for countries concerned with their potential vulnerability to contagion but not facing a crisis at the time of the commitment. In addition, the eligibility criteria confines potential candidates for the CCL to those countries implementing policies considered unlikely to give rise to need to use resources of the IMF. The conditions are that the IMF has positively assessed economic performance in candidate countries in the latest Article IV consultation and thereafter.

Moreover, it was true that time elapsed till the IMF decided its own financial supports to the crisis-hit countries after the currency crisis. In the case of Thailand, fifty
days elapsed till the IMF decided financial support to Thailand on August 20 after the
monetary authority was forced to shift to a floating exchange rate system on July 2 because
the Thai economy faced in the currency crisis. The exchange rate of the Thai baht vis-à-vis
the US dollar depreciated by about 20% from 27.75 baht/$ on July 2 to 32.60 baht/$ on
August 20. Moreover, it was serious that the Thai baht crisis had contagion effects on
currencies of other ASEAN countries. The monetary authorities of Indonesia, Malaysia, and
the Philippines were enforced to shift to floating exchange rate system in the same month. A
“currency meltdown” occurred on July 24 when all of the currencies faced in severe
speculative attacks. Thus, the Thai baht crisis had the contagion effects on the other ASEAN
countries before the IMF decided its financial support to Thailand.

3. Markets’ response to the IMF policy program

The IMF stressed that it requested the governments of the crisis-hit countries some
policy programs with a purpose to recover markets’ confidence in the crisis-hit country
economies. It is necessary that market participants should estimate possible effects of the
policy programs. If they positively estimate the effects of the policy programs, the
governments of the recipient countries can recover markets’ confidence in the country
economy. Once the IMF and the relevant governments announce a policy program, market
participants should estimate its effects on the crisis-hit country economy. Their estimation
might appear in market prices immediately after the announcement. This section studies
whether the policy program, especially news of the policy program, recovered markets’
confidence in the country economies in the case of the Asian currency crisis.

Randelet and Sachs (1998b) and Ito (1999) analyzed movements in exchange rates of
crisis-hit country currencies before and after policy programs were announced in order to
study whether the policy programs recovered markets’ confidence or not. They pointed out

1 See Lindgren et al. (1999).
that no policy programs contributed to recovering markets’ confidence. Even IMF economists (Lane et al. (1999)) pointed out that markets’ response to the policy programs were not so large as the IMF expected.

We analyze how exchange rates of the currency-hit country currencies (the Thai baht, the Indonesian rupiah, and the Korean won) responded to announcements of the policy program when the governments announced the policy program approved by the IMF in forms of Letters of Intent and Memorandums of Economic and Financial Policies (Ogawa (2000)). We look at daily movements of exchange rate of the crisis-hit country currencies vis-à-vis the US dollar during last 10 operation days before the announcement as well as during next 10 operation days after it.

Figures 1 show movements of the Thai baht, the Indonesian rupiah, and the Korean won vis-à-vis the US dollar before and after announcements of Letters of Intent. The exchange rate of the Thai baht depreciated by 8% in a week after an announcement of the first Letter of Intent on August 14, 1997. The Thai baht depreciated after announcements of the second and fourth Letters of Intent on November 25, 1997 and May 26, 1998. The Indonesian rupiah depreciated by 70% in a week after an announcement of the second Letter of Intent on January 15, 1998. Moreover, there occurred an overshooting of the exchange rate. After one week elapsed, it returned to a level which corresponded to 20% of depreciation from the level on the announcement day. Also, the Korean won showed an overshooting and depreciated by over 40% in a week after an announcement of the first Letter of Intent on December 3, 1997. However, the exchange rate of the Korean won appreciated after an announcement of the second Letter of Intent on December 24, 1997, when international commercial banks agreed with the Korean government to rollover short-term external debts of its domestic financial institutions.

Thus, the exchange rates of the Thai baht and the Korean won depreciated after the announcements of the policy program in the first Letters of Intent. On one hand, the
exchange rate of the Indonesian rupiah depreciated after the announcement of the policy program in the second Letters of Intent. Markets responded to the announcements of the IMF’s policy programs in a way to depreciate the home currencies. Especially, the appreciation of the Korean won after the agreement to rollover the short-term external debts of Korean private sectors seemed to reflect what market participants estimated the agreement that stop the liquidity crisis.

4. Rationales of a Regional Monetary Fund

After we experienced the Asian currency crisis, we recognized that there are four rationales of a regional monetary fund (Ito, Ogawa, and Sasaki (1999)). The rationales include (1) quantitative supplementation to the IMF’s financial supports, (2) underrepresentation of East Asia, (3) regional prevention of currency crisis contagion, and (4) regional surveillance and peer pressure.

(1) Quantitative supplementation to the IMF’s financial supports

First, a regional financial cooperation under a regional monetary fund is needed because funding from the IMF is not sufficient in a case of currency and financial crises that has been faced in by middle-income, emerging market countries, including most East Asian countries. A regional monetary fund can supplement an IMF’s support package to a country that faces in a currency and financial crises. Bilateral financial supports shared around a half of the total in the Asian crisis.

As for insufficiency of the financial supports by the IMF, Table 1 shows the fact that bilateral financial support arrangements as well as the World Bank and the Asian Development Bank were supplementary to the financial supports by the IMF to the three crisis-hit countries (Thailand, Indonesia, and Korea). Thus, relative shares of the financial supports by the IMF to the three crisis-hit countries demonstrated that the IMF’s financial supports were much less than the gap that needed by medium-income, emerging market
countries after the IMF extend ratio of the quota from 500% to 1938%. In addition, the case of the Thai package suggested a new way of supplementing IMF’s financial supports. A group of emerging market countries in East Asia as well as developed countries could contribute to the Thai package as a parallel lender.

(2) Underrepresentation of East Asia

The East Asian countries are underrepresented in the quota formula of the IMF. The quota allocation of the IMF deviates from real economic shares of member countries. Fast-growing economies tend to have lower quota allocations than their true allocation that is based on their economic size.

Ito, Ogawa, and Sasaki (1999) made a calculation to compare the voting rights of member countries in the IMF with their share of actual economic size such as GDP. For the IMF member countries (182 counties), the dollar denominated GDP in 1996 is calculated by converting the national currency to the US dollar at the market exchange rates (average rates in the year). The countries, whose GDP data was unavailable, were eliminated from the list in calculating shares of the quota. Then IMF quota shares were recalculated for the adjusted list of countries. The actual and adjusted IMF quota shares and the GDP shares are listed for the selected East Asian countries are listed in Table 2.

Current IMF quota shares have increased in comparison with old IMF quota shares for all of the selected East Asian countries except for China, Indonesia, and the Philippines. As for total of the selected East Asian countries, the current IMF quota share is larger than the old quota share. Current IMF quota shares have outstandingly increased in Singapore, Korea, and Thailand. Though the current IMF quota shares for the East Asian countries increased in comparison with the old ones, some of them have been still underrepresented in comparison with the GDP shares. In Japan, China, Korea, and Thailand, the current IMF quota shares are smaller than the GDP shares. Also a total of the selected East Asian
countries as well as a total of Japan, China, and Korea have the current IMF quota shares that are smaller than the GDP shares.

(3) Regional prevention of currency crisis contagion

A currency crisis in a country tends to have contagion effects on other countries via some routes that include trade linkages, similarity of macroeconomic conditions, and international chain reaction of financial crisis (Eichengreen, Rose, and Wyplosz (1996)). All of the routes are not always related with geographical linkages. However, contagions of currency crises tend to be geographically concentrated as demonstrated in the recent Asian currency crises. When one country faces in a currency crisis, the other countries have possibility to face in contagions of the currency crisis from the first crisis-hit country. Accordingly, governments in other countries as well as the first crisis-hit country should be on their guard against contagions of the currency crisis.

In fact, the Thai baht crisis had contagion effects of currency crisis to neighboring countries like in the Mexican currency crisis. Immediately after the monetary authorities of Thailand were attacked by speculators against the Thai baht and were forced to shift their exchange rate system to a floating exchange rate system on July 2, 1997, the currency crisis spread from the Thai baht to the Indonesian rupiah, the Malaysia ringgit, and the Philippine peso. As a result, the monetary authorities in the other countries also were forced to shift their exchange rate system to a floating exchange rate system. On July 24, there occurred a currency meltdown\(^2\) that all of the Southeast Asian currencies were severely attacked by speculators. Moreover, the Korean won faced in severer speculative attacks immediately after the Hong Kong dollar was attacked by speculators in October 1997.

The contagion effects of currency crisis tended to be geographically concentrated. It naturally follows that East Asian countries should make a regional grouping for financial
support to a neighboring country. Support for the Thailand package came from most East Asian countries and even Australia. This reflects two obvious facts.

First, neighboring countries have reasons to rescue a crisis-hit country. When a currency crisis occurs in a country, investors, who include institutional investors, are known to put similar countries in one basket to sell. Geographical proximity and the economic similarity in terms of the adopted exchange rate system or a ratio of current account deficits to GDP are important, and details in economic fundamentals are often overlooked. Hence, neighboring countries have self-interests in help putting out fire of a financial crisis before it spreads to them.

Second, countries, especially middle-income emerging markets countries, in other regions are hard pressed to contribute to special funds in addition to regular contributions to the IMF. Therefore, a regional grouping in this kind of scheme is only natural. Moreover, peer pressures for economic reforms may be more effective in the case of currency crises as emerging market countries in East Asia were similar in their exchange rate systems. If we have any regional monetary fund for a regional financial cooperation and surveillance, peer pressures will become more effective and, in turn, more credible.

(4) Regional surveillance and peer pressures

Both regional surveillance and peer pressures are important in an attempt to prevent a currency and financial crises. It is more important to emphasize preventive measures to stop excess capital inflows from a lesson of the Asian currency crisis that excess capital inflows caused the currency and financial crises. The role of regional surveillance would become more important because regional surveillance might have relative advantages in comparison with surveillance by the IMF. The monetary authorities of regional countries have relative advantages especially in monitoring capital inflows to the home countries and outflows from

\[\text{Lindgren et al. (1999)}\]
them. They can monitor their own capital inflows and outflows by watching external borrowing activity of domestic financial intermediaries and industrial firms. In addition, the monetary authorities of regional countries can exchange information on their own capital inflows and outflows to grasp international capital flows to the region and among the region countries.

It is necessary to make a decision and an announcement of any financial supports to a crisis-hit country promptly in order to prevent the currency crisis from deepening in itself and spreading to other countries. However, it is difficult for foreign policy makers to make a prompt decision of financial supports to it if they do not have enough information on economic conditions of the crisis-hit country. Accordingly, it is necessary for governments of the regional countries to make a regular surveillance to each other. Regional surveillance is easier if neighboring countries knows about each other very well. Also, regional surveillance is more effective because neighboring countries are afraid that a currency crisis in a neighbor country has contagion effects on themselves.

Moreover, the IMF draws recently some criticisms against its insensitivity to local conditions and institutions. Forcing the end to food and energy subsidies in the midst of a currency crisis turned out to have deepened the crisis. The IMF is good in macroeconomic analysis, while reputation on the structural reforms rests on the World Bank. How much to push reforms during the crisis must be based on careful analysis of the country’s sociopolitical background.

5. Moral hazard and duplication

We meet two major criticisms against a regional monetary fund when we discuss about the regional monetary fund, including the Asian Monetary Fund (AMF). The major criticisms include both moral hazard caused by a regional monetary fund and duplication of a regional monetary fund with the IMF.
It is afraid that a regional monetary fund would provide softer conditionality to
governments of crisis-hit counties and thus cause their moral hazard. Governments of
crisis-hit countries may seek an easier way out and request a regional monetary fund to help
them without going through rigorous conditionality. Governments may conduct loose
macroeconomic policy in expectation of financial supports from a regional monetary with
softer conditionality. When governments make policy mistakes that may result in currency
and financial crisis, they may not adopt policy reforms but count on neighboring countries’
assistance.

We can make an argument against the crisis-hit countries’ moral hazard caused by a
regional monetary fund (Ito, Ogawa, and Sasaki (1999)). As for possible moral hazard caused
by a regional monetary fund, having an independent surveillance function, a regional
monetary fund will add more weight on the IMF in negotiating conditionality with the
government of a country. In addition to the IMF, mutual surveillance accompanied with
regional financial cooperation would be able to give the government of the recipient country
peer pressures. The peer pressures are desirable to prevent the government from causing
moral hazard as well as to dispel any suspicion that strict conditionality are imposed from
outsider of the region.

It is important to examine where the most severe moral hazard in international capital
flows emerges. Moral hazard on the part of the government is in fact unlikely, as long as
conditionality is tough. Moreover, a phenomenon of regional contagion, dramatically
demonstrated in the aftermath the Thai baht crisis, is one of the motivations for a regional
monetary fund such as the Asian Monetary Fund. A group of mutually dependent countries
get together for a crisis management and prevention. Regional membership of the regional
monetary fund would reflect a collection of stakeholders.

Next, the IMF believes that it has sufficient capability to make surveillance and
conditionality in itself. Its criticism against the AMF is that a surveillance function of a
regional monetary fund such as the AMF is a wasteful duplication of the IMF. However, competition in policy surveillance is beneficial (Ito, Ogawa, and Sasaki (1999)). The IMF and a regional monetary fund may coexist and compete in surveillance and advice for developing countries. Moreover, the competition in policy surveillance implies check and balance between the IMF and a regional monetary fund in their policy surveillance. The IMF has at most several economists who watch over one country. Advices on exchange rate policy, financial sectors, and tax policies are complemented by other department at the IMF. They are not country-dedicated economists. A regional surveillance team in a regional monetary fund may draw on not only country-dedicated staff but also experts who are familiar with historical, social, and political background of the country and the region. Therefore, coexistence of a regional monetary fund and the IMF would not be wasteful even though they are regarded as duplication.

Moreover, a regional monetary fund will conduct a regular consultation process and mutual surveillance, which are important for the peer pressure that would reduce the probability of a currency crisis. Regional surveillances might have relative advantages in comparison with surveillances made by the IMF. Also, it is desirable to establish a credible regional surveillance group in a form of a regional monetary fund and have a consultation process between a regional monetary fund and the IMF in order to dispel any questions on fairness at the IMF. Moreover, it is not redundant but a double-check in East Asia for important program through parallel lending is desirable because even the IMF is not always perfect in judgment and recommendations.

6. Conclusion: Beyond the Chiang Mai Initiative

This paper pointed out that the IMF’s financial supports to the crisis-hit countries in the Asian currency crisis were not in quantity and quality enough to prevent and stop the contagion of the first Thai baht crisis to other East Asian countries. The shares of the IMF
were around one-third of the total financial supports to the recipient countries in the Asian currency crisis while the shares of bilateral financial supports were nearly 50% of the total. Moreover, market participants did not so well estimate policy programs that the IMF suggested and approved as conditionality.

We have the four rationales of a regional monetary fund. A regional monetary fund is needed to supplement the IMF in financial supports because IMF’s financial supports will not be in quantity sufficient for middle-size of East Asian countries if they face in a currency crisis. Moreover, East Asian countries are underrepresented in the quota formula of the IMF. Thirdly, contagion of currency crises tends to be geographically concentrated as demonstrated in the Asian currency crisis. It is natural that East Asian countries should make a regional grouping for financial support to a neighboring country. Lastly, regional surveillance has advantages in both monitoring capital flows in the region and understanding regional sociopolitical background.

However, we meet two criticisms against a regional monetary fund, which include moral hazard of governments of regional countries under a regional monetary fund and duplication of a regional monetary fund with the IMF. A regional monetary fund should not assign a softer conditionality to a crisis-hit country. In addition to the IMF, *ex ante* regular mutual surveillance based on a regional monetary fund gives member countries a peer pressure so as to conduct appropriate macroeconomic policy. Because a regional monetary fund will conduct a regular consultation process and mutual surveillance to give peer pressures to each other, regional surveillance based on the regional monetary fund should have advantage in comparison with the IMF. A regional monetary fund is not duplication with the IMF but supplementary to the IMF.

In May 2000, ASEAN + 3 (China, Japan, and Korea) agreed to the Chiang Mai Initiative to expand the swap arrangement among the five ASEAN countries (Indonesia, Singapore, Thailand, the Philippines, and Malaysia) to include all ASEAN member countries and to
establish a network of bilateral swaps and repurchase agreement facilities among ASEAN countries, China, Japan, and Korea. However, it is declared that the Chiang Mai Initiative is different from creating a new multilateral regional organization such as a regional monetary fund.

However, the Chiang Mai Scheme is a regional financial cooperation without any institution. A regional monetary fund would be able to achieve prompt financial supports to crisis-hit countries as long as member countries at all times mutually monitor their macroeconomic condition through the institutions. On the other hand, it might be insufficient for each of the countries to achieve, in practice, usual mutual monitoring without institution. Thus, the Chiang Mai Scheme might be unable to achieve a regional financial cooperation backed by quick action. Moreover, it was already pointed out that peer pressure for sound economic policies may be more effective in the case of currency crises as the East Asian emerging markets countries have been similar in their exchange rate systems. The peer pressure would become more credible if we had a regional monetary fund for a regional financial cooperation and surveillance.

We had better establish a regional monetary fund that is able to devote to the tasks of regional financial cooperation and surveillance in East Asia. A regional monetary fund would supplement the functions of the IMF. Both the multilateral monetary organization such as the IMF and a regional monetary fund might have relative advantages in surveillance and financial supports. Especially a regional monetary fund would have relative advantages in regional surveillance and regional financial supports. Both of them are supplementary to each other in surveillance and financial support.


<table>
<thead>
<tr>
<th></th>
<th>IMF</th>
<th>Ratio in terms of quota</th>
<th>World Bank and ADB</th>
<th>Bilateral Supports (A)</th>
<th>Total(B)</th>
<th>Shares of Bilateral Supports (A/B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>8/20/1997</td>
<td>4.0</td>
<td>2.7</td>
<td>10.5</td>
<td>17.2</td>
<td>61%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>11/5/1997</td>
<td>10.1</td>
<td>8.0</td>
<td>18.0</td>
<td>36.1</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>7/29/1998</td>
<td>11.2</td>
<td>10.6</td>
<td>21.1</td>
<td>42.5</td>
<td>50%</td>
</tr>
<tr>
<td>Korea</td>
<td>12/4/1997</td>
<td>21.1</td>
<td>14.2</td>
<td>23.1</td>
<td>58.4</td>
<td>40%</td>
</tr>
<tr>
<td>Total</td>
<td>35.2</td>
<td>24.9</td>
<td>51.6</td>
<td>111.7</td>
<td>117.5</td>
<td>46%</td>
</tr>
</tbody>
</table>

Figures in Indonesia (7/29/1998) contain the EEF.

Source: Lane et al.(1999), IMF (1999)
Table 2: IMF quota share and GDP share (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Actual quota share</th>
<th>Adjusted quota share</th>
<th>GDP share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Old</td>
<td>Current</td>
<td>Old</td>
</tr>
<tr>
<td>Japan</td>
<td>5.64</td>
<td>6.28</td>
<td>5.84</td>
</tr>
<tr>
<td>China</td>
<td>2.32</td>
<td>2.21</td>
<td>2.40</td>
</tr>
<tr>
<td>Korea</td>
<td>0.55</td>
<td>0.77</td>
<td>0.57</td>
</tr>
<tr>
<td>Japan+China+Korea</td>
<td>8.51</td>
<td>9.26</td>
<td>8.81</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.02</td>
<td>0.98</td>
<td>1.06</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.57</td>
<td>0.70</td>
<td>0.59</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.43</td>
<td>0.42</td>
<td>0.45</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.39</td>
<td>0.51</td>
<td>0.41</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.25</td>
<td>0.41</td>
<td>0.25</td>
</tr>
<tr>
<td>ASEAN5</td>
<td>2.66</td>
<td>3.02</td>
<td>2.76</td>
</tr>
<tr>
<td>ASEAN5+3</td>
<td>11.17</td>
<td>12.28</td>
<td>11.57</td>
</tr>
</tbody>
</table>


Note: ASEAN5+3 includes all of the listed countries. Actual quota shares are calculated based on actual voting shares at the IMF. Adjusted quota shares means voting shares at the IMF with eliminating countries whose GDP data was unavailable. Old shares mean those in effect until February 1999 and current shares mean those in effect after February 1999. GDP shares means those of GDP in the world GDP according to above calculation method.
Source: Ogawa (2000)