

The Political Economy of East Asian Financial Cooperation: The Chiang Mai Initiative

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The Chiang Mai Initiative

Since the late 1990s, East Asian financial cooperation has developed significantly, and one prominent example is the successful evolution of the Chiang Mai Initiative. This paper analyzes the factors that have contributed to development of the Chiang Mai Initiative, by comparing it with the failed 1997 proposal for an Asian Monetary Fund, from an international political economy perspective. This study argues that development of the Chiang Mai Initiative is largely attributable to the changes in political dynamics in East Asia since the late 1990s: (i) Japan has become more active in providing regional initiative; (ii) China has become more willing to support East Asian financial cooperation; and (iii) US opposition to East Asian financial cooperation has declined. Additionally, this research briefly discusses the roles that South Korea can play for the further development of East Asian financial cooperation.

Keywords: ASEAN+3, Asian Monetary Fund, Asian Regionalism, Chiang Mai Initiative, East Asia, Financial Cooperation

JEL Classification: F53, F55, F59

I. Introduction

East Asian economic cooperation has made substantial progress since the turning point of the 1997 Asian financial crisis. Prior to the crisis, economic integration in East Asia was led mainly by private business, while East Asian governments showed little serious interest in regional economic cooperation. As a result of weak government cooperation, the formal institutionalization of East Asian economic cooperation had lagged far behind regional cooperation in the rest of the world (Bowles, 2002: 245).¹ Since the 1997 crisis, however, East Asian governments have been active in promoting regional economic cooperation, in particular in the area of finance. In December of 1997, the Association of Southeast Asian Nations (ASEAN) and three Northeast Asian countries – Japan, China, and South Korea – established the ASEAN Plus Three (hereafter APT), a forum for coordinating cooperation among the participant countries, which they then institutionalized in 1999. Under the APT framework, member countries have conducted annual economic reviews and policy dialogues, promoted regional bond markets through the Asian Bond Market Initiative,² and established a research group to study ways of strengthening financial cooperation and enhancing financial stability. Central banks in the region have also facilitated the development of regional bond markets by establishing two Asian Bond Funds.³

¹ The low level of institutionalization was one of the key characteristics of East Asian regionalism prior to the financial crisis. For more on East Asian regionalism during the pre-crisis period, see, for example, Foot (1995), Haggard (1997), Katzenstein and Shiraishi (1997), Palmer (1991) and Stubbs (1994).

² In 2003, APT countries launched the Asian Bond Market Initiative, aimed at developing efficient and liquid bond markets in Asia. The initiative focuses on two objectives: facilitating access to bond markets by encouraging greater numbers of issuers and types of bond, and enhancing market infrastructures to foster greater bond market development.

³ In 2003, the Executives' Meeting of East-Asia and Pacific Central Banks (EMEAP), comprising eleven

At the center of the East Asian financial cooperation lies the Chiang Mai Initiative (CMI). The CMI refers to a network of bilateral swap arrangements (hereafter BSAs) created by APT countries in May 2000 to provide short-term liquidity assistance.⁴ When the CMI was first established, there was strong criticism of its effectiveness – due to its bilateral nature and to the small size of the BSAs (a total of US\$36.5 billion).⁵ Through the mid-2000s, however, the CMI has evolved. It has now adopted a collective decision-making procedure for swap activation, while the total volume of its BSAs has grown to US\$83 billion (as of July 2007).⁶ From May 2006, moreover, APT countries began to work on multilateralization of the CMI, and in 2007 reached agreement on the form of funding (self-managed reserve pooling)⁷ and the legal modality (legally-binding single contractual agreement) of the

central banks and monetary authorities in the East Asia and Pacific region, launched the US\$1 billion Asian Bond Fund 1, which invests in US dollar-denominated bonds issued by sovereign and quasi-sovereign issuers in eight EMEAP economies (other than Japan, Australia, and New Zealand). In the following year, the EMEAP established the Asian Bond Fund 2, of US\$2 billion, which invests in domestic currency-denominated bonds issued by sovereign and quasi-sovereign issuers in the same eight EMEAP economies.

⁴ The idea of the CMI emerged from the APT Summit in November 1999, at which APT leaders agreed to enhance self-help and support mechanisms in East Asia. For more on the APT, see Hund (2003) and Stubbs (2002). The CMI has also expanded the ASEAN swap arrangement, created by the original five ASEAN countries (Indonesia, Malaysia, the Philippines, Singapore and Thailand) in 1977 to promote financial cooperation among them. For more on the ASEAN swap arrangement, see Henning (2002: 14-15). In this study, however, the term CMI mainly relates to the BSA network established under it.

⁵ During the 1997 financial crisis, the IMF and lender countries granted a total of US\$118.9 billion to four crisis-hit countries (Wang 2002: 93). For more details on the early arrangements of the CMI and the criticism of them, see Amyx (2004: 99-104), Henning (2002), Lee (2006a: 58-59), Park and Wang (2005) and Park and Yang (2006: 64-68).

⁶ For the network of BSAs in the CMI, see appendix 1.

⁷ Under the self-managed reserve pooling arrangement, each participating member contributes a certain amount of reserves to a “fund,” and members obtain claims on the fund in return. The fund then entrusts the reserve assets received back to their respective contributors for management, and income arising from these reserve assets accrue to the respective central banks.

multilateralized CMI.⁸ If successful, multilateralization of the CMI is widely expected to lead East Asian financial cooperation into an unprecedented stage, the establishment of a *de facto* regional monetary fund.⁹

Despite such noticeable progress in East Asian financial cooperation, skepticism about its future remains strong. This skepticism tends to emphasize the political situation, rather than the economic situation, in the region.¹⁰ The skeptics generally assert that the region lacks the leadership that can promote close financial cooperation.¹¹ Japan, they say, is reluctant to assume a leadership role despite its economic power, while China is not yet ready to lead despite its growing economic and military strength. The possibility of joint leadership by these two regional powers is also low, due to their rivalry. Moreover, the influence of the United States in the region makes East Asian financial cooperation even more difficult, since the U.S. opposes emergence of an “Asian” regionalism. In this regard, however, it should be noted that such criticisms of East Asian financial cooperation were being put forward even prior to the 1997 crisis.

This pessimistic view of the political conditions for East Asian financial cooperation also seems to imply that the recent development of regional financial cooperation is due only to deepening regional economic integration. This is

⁸ APT countries are now discussing the remaining key elements of CMI multilateralization, which include surveillance, reserve eligibility, sizes of commitments, borrowing quotas, and the activation mechanism.

⁹ For a chronology of development of the CMI, see appendix 2.

¹⁰ For the negative views concerning East Asian financial cooperation, see, for example, Hamilton-Hart (2003), Hund (2003), Lincoln (2004), Park and Yang (2006), Pempel (2006) and Rhee (2004). For the positive views, see, for example, Katada (2004), Stubbs (2002) and Terada (2003; 2004).

¹¹ A few studies find the main difficulties in East Asian economic cooperation as stemming from domestic factors such as government capacities. See, for example, Hamilton-Hart (2003) and Narine (2004).

problematic, however, because the ratio of intra-regional trade of the APT countries and Hong Kong increased only 2 percent between 1997 and 2005 – from 45 to 47 percent. Regarding financial integration, from 2001 to 2004, Asia’s portfolio liabilities to both North America and the European Union (EU) rose by larger amounts than its intra-regional liabilities, although the rate of growth of its intra-regional asset holdings was greater during the period than that of its inter-regional holdings.¹² From 1999 to 2005, both North American and European bank claims on Asia also grew faster than Asian bank claims on Asia (Cowen et al. 2006: 9-10).¹³ Moreover, Eichengreen and Bayoumi (1999) have shown that even prior to the 1997 crisis the Asian economy had reached a level at which a currency union could have been created. In short, East Asian economic integration during the post-crisis era is not likely to be salient in explaining the recent development of East Asian financial cooperation. This calls into question the validity of the skeptical view on the political situation for East Asian financial cooperation.

What explains the progress in East Asian financial cooperation since the late 1990s? This paper attempts to answer that question by analyzing the factors that have led to development of the CMI, from an international political economy perspective. In particular, this study compares CMI development with the failure of the 1997 proposal for an Asian Monetary Fund (AMF),¹⁴ by conducting a “comparative study” based on the “most similar system design.” This comparative analysis is appropriate,

¹² Also, note that Asia’s portfolio liabilities to other Asian countries reached only 2¹/₄ percent of Asia’s GDP in 2004, less than one-third of its liabilities to either North America or the EU (Cowen et al. 2006: 9).

¹³ The Asian countries included in these statistics are Australia, China, India, Hong Kong, Japan, South Korea, New Zealand, Taiwan and the ten ASEAN countries.

¹⁴ The 1997 AMF proposal will be discussed in detail later.

given the large similarity between the CMI and the proposed AMF, in that successful CMI multilateralization is likely to result in creation of a regional institution similar to a regional monetary fund. Study of why the two similar institutions for regional liquidity support underwent contrary paths can provide valuable insight into what factors influence the development of East Asian financial cooperation.

This study argues that the political dynamics of East Asian financial cooperation have changed since the 1997 financial crisis, and that the changed political dynamics are a key factor behind the development of the CMI. In particular, this research demonstrates (i) that Japan has become more active in providing regional initiative, (ii) that China has become more willing to support East Asian financial cooperation, and (iii) that US opposition to East Asian financial cooperation has lessened.

This paper is organized as follows. It first reviews the literature on East Asian regionalism with a focus on the issue of regional leadership. It then analyzes why the 1997 AMF proposal failed, and, in the following section, explores why in contrast the CMI has developed successfully. In the final section, it discusses the prospects for further development of East Asian financial cooperation and suggests the role that South Korea can play to help achieve it.

II. The political dynamics of East Asian economic cooperation

It is generally acknowledged that close regional economic cooperation requires strong political leadership to foster coherence among member countries with divergent interests by mediating among them. Yet, a number of studies maintain that East Asia

lacks such leadership.¹⁵ Much research also indicates that the influence of the United States in East Asia hinders the development of closer regional economic cooperation.¹⁶

Given its economic power, Japan has been the most prominent candidate for regional leadership in East Asia. In spite of its decade-long economic recession during the 1990s and early 2000s, Japan remains the regional economic superpower. Therefore, the development of East Asian economic cooperation requires Japan's vigorous support. Japan, however, has been widely criticized for its reluctance to provide strong initiative for regional economic cooperation. Japan's failure to do so has been attributed to a diversity of factors, including its faltering economy, its unwillingness to shoulder the burdens of leading regional economic cooperation, its relationship with the United States, and its government's high sensitivity to interest group pressures.¹⁷ This view of Japan as a "reactive state"¹⁸ remains strong in analyses of recent East Asian economic cooperation.¹⁹ Moreover, Japan has frequently been denounced for its reluctance to resolve historical tensions with its East Asian

¹⁵ See, for example, Kuroda and Kawai (2003), Lee (2006a: 64), Lincoln (2004: 231-249), Munakata (2006: 132), Park (2006: 105-111), Pempel (2000: 69), Rapkin (2001) and Rhee (2004: 99). Some scholars point to the consensus-based decision-making structure in the region as another important political obstacle to development of East Asian economic cooperation. See, for example, Katzenstein (1997: 3), Kuroda and Kawai (2003: 13) and Munakata (2006: 133).

¹⁶ See, for example, Narine (2003: 84-98), Rapkin (2001) and Tsunekawa (2005).

¹⁷ See Calder (2003: 615), Kuroda and Kawai (2003: 12), Lincoln (2004: 232-239) and Pempel (2000: 69).

¹⁸ In his seminal work on Japan's foreign economic policy, Kent Calder (1988) characterized Japan as a "reactive state," indicating its failure to undertake major independent foreign economic policy initiatives and its deferential response to outside pressures, in particular from the United States.

¹⁹ See, for example, Calder (2003), Lincoln (2004: 232-242), Narine (2003: 84-98), Park and Yang (2006: 106-111) and Rhee (2004: 97). In counter to this traditional analysis of Japan's foreign economic policy, some scholars argue that Japan exercises "leadership from behind," meaning that it helps develop innovative institutional options but eschews overt dominance of multilateral forums. See, for example,

neighbors, which reduces its ability to gain their support for its having a leadership role.²⁰

Meanwhile, a number of scholars assess China's capability of providing strong regional leadership as not yet sufficiently matured.²¹ Given its rapid economic growth, huge population, historical legacy of regional influence, and reintegration into the global economy, China does seem to have the potential to lead East Asian economic cooperation (Lincoln, 2004: 242). Nevertheless, there are at present several problems with the idea of China exercising regional leadership. China's economy still has a long way to go to catch Japan's (Katzenstein, 2006: 2-3). China's transition to a market economy has not yet been completed, while in contrast most of its East Asian neighbors have had market-based economies for decades (Bergsten, 2000: 10; Lincoln, 2004: 246-247). As China has expanded its economic and military strength, East Asian countries' fear of its dominance in the region has also grown (Bergsten, 2000: 10; Lincoln, 2004: 244). All of these factors make it difficult to envision emergence of China as the leader of East Asian economic cooperation, at least in the near-term future.

There is also strong skepticism about the possibility of joint East Asian leadership emerging, in particular leadership by Japan and China, as the region's two most important powers.²² According to this perspective, most East Asian countries view one another as economic rivals rather than potential partners (Bergsten, 2000: 10), and

Rix (1993).

²⁰ See Bergsten (2000: 10), Lincoln (2004: 236-239), Narine (2003: 84-85) and Park and Yang (2006: 109).

²¹ See, for example, Lincoln (2004: 242-249) and Rhee (2004: 97).

²² See, for example, Bergsten (2000: 10), Lincoln (2004: 249), Rhee (2004: 98) and Park and Yang (2006: 106).

Japan and China are political rivals competing over regional leadership. The possibility of cooperation between the two countries becomes even more doubtful considering Japan's problems with its historical legacy as well as its fears of growing Chinese economic and military power.

The influence of the United States in East Asia adds further complications to the issue of East Asian economic cooperation. The United States is a key actor in security affairs in the region. The United States is also critical as an end market for East Asian economies' exports, and thus to their vitality (Munakata, 2006: 132; Pempel, 2000: 69), which makes it important that East Asian countries accommodate US interests. The United States thus exercises large influence in the region and, notably, has traditionally opposed development of any multilateral regional framework, promoting instead its own bilateral relationships with East Asian countries (Katzenstein, 1997: 23-27). Furthermore, whenever its leadership has been challenged by movement toward "Asian" regionalism that excludes it, the United States has strongly resisted.²³ Such policies of the United States have effectively hindered the development of East Asian economic cooperation.²⁴

The contrasts between the cases of the AMF and the CMI, however, demonstrate the traditional view of the political dynamics relevant to East Asian regionalism to have become less applicable recently to the development of East Asian financial cooperation. The possibility of a regional hegemon that can impose economic cooperation emerging appears to remain low, and may decline further if China continues to grow while Japan manages to maintain its power. Hence, East Asian

²³ One good example of the US resistance to "Asian" regionalism was its strong opposition to the East Asian Economic Caucus proposed in 1990 by former Malaysian Prime Minister Mohamad Mahathir. For more on the East Asian Economic Caucus, see Stubbs (1994: 374) and Rhee (2004: 99).

financial cooperation depends largely on whether the two regional powers can cooperate with each other or exercise joint leadership. Notably, in this regard, Japan and China have in fact since the late 1990s begun to do just this. Japan has become active in taking regional financial initiative, while China has begun to respond to some (albeit not all) of them positively. In these novel circumstances, the opposition of the United States to development of East Asian financial cooperation has declined. The following sections explain in detail how and why these changes have emerged.

III. The 1997 Asian Monetary Fund proposal

In mid-September 1997, in the wake of the Thai financial crisis, Japan put forward a proposal to establish a regional monetary fund – an AMF. The AMF was envisioned as a US\$100 billion fund participated in by ten East Asian countries (Sakakibara, 2005: 185).²⁵ The AMF proposal was of significance in that its membership excluded the United States, and that it would not necessarily act in harmony with the International Monetary Fund (IMF) (Sakakibara, 2005: 186). In other words, the AMF proposal was an attempt to build an “Asian” self-help mechanism, which could reshape the structure of global financial governance led by the IMF. However, the AMF proposal ended in failure only two months after its emergence. Why did the AMF proposal fail?

²⁴ See Bergsten (2000: 15-16), Katzenstein (1997: 23-27) and Pempel (2000: 70).

²⁵ The ten countries were Japan, China, South Korea, Indonesia, Malaysia, Thailand, the Philippines, Hong Kong, Singapore and Australia.

1. Japan's initiative

The 1997 AMF idea was Japan's proposal, and Japan played the leading role in promoting it. The Japanese Ministry of Finance began pushing for establishment of an AMF in August 1997, immediately after outbreak of the Thai financial crisis,²⁶ and sent high-ranking officials to other East Asian countries to explain and discuss the idea (Sakakibara, 2005: 185-186). Japan also planned to provide half the funds necessary for AMF creation (*Business Times*, November 7, 1997). These Japanese efforts to establish the AMF contradicted both the view of Japan as a reactive state and the notion of its aversion to regional economic cooperation. Furthermore, the idea of excluding the United States from AMF membership was a significant change in Japan's foreign economic policy. In the postwar era, it had until then never tried to intentionally keep the US out of an international institution (Lee, 2006b: 340).

When Japan proposed creation of an AMF, it had the desire of expanding its influence and leadership in the region (Lee, 2006b: 360-361) – a policy goal it has maintained even since demise of the 1997 AMF proposal. However, as Lee (2006b: 361) indicates, this motivation alone cannot fully explain Japan's exclusion of the United States from its proposed AMF.

Also behind the AMF proposal was Japan's ideological interest in defending the Asian development model against the IMF's neoliberal bailout program (Lee, 2006b). The IMF, along with Western countries such as the United States, asserted that the structural problems inherent in the Asian development model were the main cause of the crisis. Accordingly, IMF conditionality for bailout required strong economic

²⁶ In fact, Haruo Kuroda, then Director General of the International Finance Bureau of the Ministry of Finance of Japan, had long cultivated the AMF idea privately, and he had many supporters in Japan (Sakakibara, 2005: 184).

restructuring on the parts of the crisis-hit countries. Japan, however, diagnosed the deregulation of capital accounts in the crisis-hit countries as the direct cause of the crisis. Japan also suspected the IMF bailout programs of being heavily influenced by US intentions to bring down the Asian development model, which Japan had been trying to promote (Lee, 2006b: 350). Ultimately, Japan proposed the AMF idea in order to create a policy alternative to the IMF prescription (Lee, 2006b: 358). This economic ideological crack between Japan and the Western countries has continued, and it has led Japan to continue pushing for establishment of an AMF even after the original proposal's explicit demise.

It is of course also likely that Japan had more myopic interests related to its AMF proposal. The quick provision of liquidity for the crisis-hit countries through an AMF could have benefited Japan. It had strong economic ties with the crisis-hit countries through bank loans, foreign direct investment and trade, and a full-blown crisis could therefore have seriously hurt many of its banks and firms (Lipsy, 2003: 97-98). However, if such economic interests had been Japan's sole motivation, Japan could have used the IMF (Lee, 2006b: 346-350). It should also be noted that many Japanese banks and firms were opposed to the AMF proposal (Katada, 2002: 10; Lee, 2006b: 360).²⁷ These myopic economic interests, however, can also not explain why Japan has strongly supported the CMI, which it hopes will eventually develop into an AMF, even after economic recovery in the crisis-hit countries.

²⁷ A number of Japanese banks were opposed to the AMF proposal, arguing that it could create a psychology of dependence in crisis-hit countries. Many Japanese firms, meanwhile, argued against the proposal because they regarded the crisis as a golden opportunity for further liberalization of Asian markets (Lee 2006b: 359-36).

2. The demise of the AMF proposal

Japan's AMF proposal died in November 1997, when Japan, the United States and twelve other Asia-Pacific countries agreed to create the Manila Framework, a forum for regional economic surveillance and crisis management. Under the Manila Framework, the size of the cooperative financing mechanism was only US\$20 billion, and the mechanism had no institutional components as it took the form of a stand-by arrangement. The Framework also lacked a regional orientation, since it included the United States and was subordinated to the IMF (Lipsky, 2003; Rapkin, 2001: 398).

The failure of the AMF proposal was attributable, first of all, to the strong opposition from the United States, in tandem with the IMF.²⁸ US opposition to the AMF proposal was superficially on the grounds that the AMF would be only a duplication of the IMF, and that the AMF could cause moral hazard problems since its relief funds might be available without rigorous conditions such as imposed by the IMF (*Asahi Shimbun*, May 14, 1999; *The Nikkei Weekly*, October 20, 1997). The United States insisted that the IMF was best positioned to ensure economic reform program success and therefore needed to be at the center of any attempt to manage economic crises (Sakakibara, 2005: 188).²⁹

²⁸ In the case of the IMF, it initially supported the AMF proposal, but changed course to object to it later. The IMF's official reasons for opposition to the AMF proposal were similar to those the United States presented (*Japan Economic Newswire*, November 10, 1997). However, there was speculation that the IMF's opposition stemmed from its fears of the AMF being a direct threat to its authority (*Business Times*, November 7, 1997).

²⁹ For instance, regarding the AMF proposal, John Wolf, then US Coordinator for Asia-Pacific Economic Cooperation, stated in November 1997 before the US Congress, "Whatever financial arrangements are made, it will be important for the International Monetary Fund to be at the center" (*Japan Economic Newswire*, November 7, 1997).

The strong US opposition to the AMF proposal appears, however, to have had more fundamental reasons. The United States worried that the AMF could undercut its interests and influence in East Asia.³⁰ Establishment of the AMF could possibly lead to creation of a yen bloc, which would threaten US dollar hegemony in the region.³¹ The AMF could undermine US supremacy in the management of financial crisis. The AMF could enhance Japan's influence in East Asia, as Japan would become the major AMF financier. Moreover, the AMF could be a powerful voice for international financial policies that were not inclined toward Western interests and ideas, creating a division between the Western-backed IMF and the Asian-backed AMF.

The US concerns regarding the AMF proposal were based on the facts that the AMF would exclude it, and that the AMF would act independently of the IMF. Indeed, the United States became antagonistic to the AMF proposal only after it noticed its exclusion from the AMF and the possibility of fund operation independent of the IMF (Sakakibara, 2005: 186-187).³² The US opposition to the AMF proposal was so strong that it brought the proposal down, and pushed East Asian countries into accepting the Manila Framework instead (*Business Times*, May 17, 2001).³³ In fact, although most

³⁰ In the Air Force jet to the IMF/World Bank annual meeting in Hong Kong in September 1997, then US Treasury Secretary Robert E. Rubin gathered with his deputy Lawrence H. Summers and other officials to plot strategy, and complained that the AMF proposal would undercut US interests and influence in Asia (*The New York Times*, February 17, 1999).

³¹ When the AMF idea was proposed, a senior US Treasury official questioned, "Does this [the AMF proposal] mean a challenge to the dollar's hegemony?" (*Asahi Shimbun*, June 16, 1998).

³² Immediately after Summers learned of the plan's exclusion of the United States, he called Eisuke Sakakibara, Japan's then Vice Minister of Finance for International Affairs and a strong proponent of the AMF, at home late Sunday night, angrily starting "I thought you were my friend" and talking for two hours criticizing the plan (Sakakibara, 2005: 187).

³³ Sakakibara commented, "When I proposed the Asian Monetary Fund, the United States strongly opposed it and virtually squashed the idea" (*New Straits Times*, January 13, 2000). In this regard, his following comments are also noteworthy: "During the two-month period from mid-September, we were

ASEAN countries initially welcomed the AMF plan,³⁴ their support began to fade immediately once the United States and the IMF expressed strong opposition to it (Lipsky, 2003: 96).

The fate of the AMF proposal might have been different if it had received strong support from other regional powers, especially China. However, China did not support the AMF proposal, out of worries about an increase in Japanese influence in East Asia. China perceived the AMF proposal as an attempt by Japan to assume regional leadership (Rapkin, 2001: note 36) and to establish hegemony of the yen in the region (*China Online*, January 12, 2001; *Business Times*, May 1, 2000) and did not wish to see that happen.³⁵ At the time, China was more concerned about Japan becoming powerful than about the United States retaining supremacy in East Asia (*China Online*, January 12, 2001).

China's traditional reluctance to participate in multilateral institutions should also be noted. The country had placed great emphasis on its own autonomy and independence, a key reason being its concern that it could be outvoted and have its bargaining power decreased in multilateral settings. Therefore, China had maintained a minimalist and passive approach toward regional cooperation (Sohn, forthcoming). In these circumstances, Japan made a critical mistake by not consulting with China concerning its AMF proposal, which raised Chinese suspicions about the plan (*China Online*, January 12, 2001). In addition to the Japanese diplomatic error, the United

taught a valuable lesson on the influence the United States wields in Asia" (Sakakibara 2005: 192).

³⁴ Richard Hu, then Singapore Finance Minister, who participated in discussions on the AMF proposal with other Asian finance ministers, revealed that, with the exceptions of Laos and Myanmar, all ASEAN countries agreed in principle to support the AMF plan (*Business Times*, September 25, 1997).

³⁵ A Japanese Foreign Ministry official commented, "It is true that China has also opposed the [AMF] idea because it did not like to see Japan taking a leading role" (*Asahi News Service*, May 13, 1999).

States also lobbied China to get it to oppose the plan, by emphasizing the threat of Japan's hegemony (Lipsky, 2003: 96). In the end, without Chinese support the AMF plan could not overcome the strong US opposition.

IV. The Chiang Mai Initiative

The CMI and the AMF proposed in 1997 basically share the common objective of ensuring availability of liquidity assistance. Nonetheless, while the 1997 AMF proposal died quickly, the CMI has continued to evolve successfully. What explains the development of the CMI?

1. Emerging cooperation between Japan and China

Development of the CMI has been an outcome largely due to cooperation between Japan and China. Japan has continued its efforts to set up an AMF, despite the humiliating defeat of its 1997 AMF proposal.³⁶ In fact, it was Japan that led establishment of the CMI, expecting that it would in the end develop into an AMF (*Agence France Presse*, March 29, 2000).³⁷ To make the CMI a success, Japan worked

³⁶ Despite the 1997 failure of the AMF proposal, then Japanese Finance Minister Hiroshi Mitsuzuka stated in the Japanese parliament in January 1998 that Japan would continue to promote the idea of an AMF (*Jiji Press*, January 20, 1998). Indeed, in October 1998, Japan launched the New Miyazawa Initiative, which provided US\$30 billion to the crisis-hit East Asian countries, hoping that this would in time lead to creation of an AMF (*Business Times*, October 5, 1998).

³⁷ Regarding creation of the CMI in May 2000, then Japanese Finance Minister Kiichi Miyazawa commented, "The new initiative [CMI] is of the same philosophy as the AMF.... While it takes the form of bilateral agreements, it is in nature similar to multilateral cooperation" (*The Nikkei Weekly*, December 25, 2000).

actively to establish the BSA network, by contracting BSAs with seven countries.³⁸

Japan also plays the role of biggest financial provider in the scheme, contributing US\$38 billion. With regard to the recent CMI multilateralization efforts, moreover, Japan has supported centrally-managed reserve pooling as the form of funding and a treaty as the legal modality – both of which would strengthen institutionalization of the multilateralized CMI.

The Japanese endeavors for development of the CMI and ultimate creation of an AMF have been driven mainly by three motivations. First, quite consistent with its key desire related to the 1997 AMF proposal, Japan wishes to establish a regional institution representing Asian voices. An anti-American mood has grown within Japanese policy circles since the 1997 crisis, as Japan was heavily accused by the United States of not doing enough to help Asia at the time, despite Japan's having been the largest single donor to crisis-hit countries.³⁹ In this situation, a volition to achieve independence from the US has risen within the Japanese government (Yoshida, 2004: 9-11).⁴⁰ Indeed, Japan expects that creation of an AMF would show its determination to play a key role in making rules of the international economy that speak for Asian perspectives (*Asahi News Service*, February 10, 1999).^{41,42}

³⁸ The seven countries are China, South Korea, Thailand, Malaysia, the Philippines, Indonesia and Singapore.

³⁹ Japan provided fourteen times as much funding for crisis-hit countries as the United States did (*Financial Times*, November 19, 1998).

⁴⁰ Many prominent political scientists (for example, Takashi Inoguchi, Akihiko Tanaka and Susumu Yamakage) and economists (for example, Ippei Yamazawa and Shujiro Urata) in Japan acknowledge that the Japanese government has made a significant change in its foreign policy since the late 1990s, by beginning to regard Asia as the most important region. They argue that the relative importance of the United States for Japan has declined in proportion to Asia's rise in importance, although the United States remains very important to Japan for both security and economic reasons (Yoshida, 2004: 13).

⁴¹ In February 1999, then Japanese Foreign Minister Masahiko Komura asserted that Japan should

Secondly, Japanese efforts to develop the CMI also aim at facilitating internationalization of the yen, which has been an important Japanese policy goal for a considerable time.⁴³ The introduction of the euro has increased Japan's zeal for internationalization of the yen, as it worries that introduction of the euro might eventually push the world into two currency blocs, focused on the dollar and the euro, and squeeze the yen out (*Financial Times*, October 11, 2000). Japan has also assessed Asian countries' over-dependence on the US dollar as one of the major factors behind the 1997 crisis, and this has intensified its efforts for yen internationalization.⁴⁴ In these circumstances, Japan expects that the CMI will serve as a means of making the yen a more international currency, since through its BSAs it can encourage other countries to use the yen more often.⁴⁵ Indeed, Japan's BSA with China is denominated on Japan's side not in dollars but in yen, marking the first time the yen has been used as the key currency in such an agreement.

contribute actively to redesign of the Bretton Woods system (*Jiji Press*, February 9, 1999). Indeed, since the 1997 crisis, Japan, along with its Asian neighbors, has made efforts to reform key international financial institutions, including the IMF.

⁴² This study recognizes the argument that Japan prefers "Asian-Pacific" to simply "Asian" economic cooperation. This argument tends to emphasize Japanese efforts to include Australia, New Zealand and India in building Asian economic cooperation. See, for example, Hund (2003). However, note that even in this design of Asian-Pacific economic cooperation, the United States, which would seem to be a key country for it, is not included.

⁴³ As mentioned above, when Japan raised its AMF proposal in 1997, there was suspicion that it wished to facilitate internationalization of the yen through an AMF.

⁴⁴ In February 1998, Japan's ruling Liberal Democratic Party suggested the need for establishing an AMF so as to make more active use of the yen and reduce dependency on the US dollar for trade settlement by countries in the region (*The Straits Times*, February 21, 1998).

⁴⁵ In April 2000, then Japanese Finance Minister Kiichi Miyazawa said, "We had been reluctant...about the yen's internationalization.... But our hesitation is now going away.... Unlike in the past, we are positive now.... As a matter of fact, we are planning to expand swap and repurchase agreements between Japan and other countries.... Through such things, I hope other countries will have a sense of affinity with the yen" (*Agence France Presse*, April 25, 2000).

The third reason for Japan's efforts for CMI development is China's growing participation since the late 1990s in East Asian economic cooperation, especially with ASEAN countries.⁴⁶ China's influence in the region has grown as it has increased its participation in East Asian economic cooperation. This has caused worries in Japan that China could take supremacy in East Asian regionalism, pushing Japan into actions to strengthen its leadership in the region (Yoshida, 2004: 17-18). Under these circumstances, financial cooperation is an attractive idea for Japan, given that its financial system is more advanced than China's and it may therefore be easier for Japan to establish leadership vis-à-vis China in the area.

China, for its part, has supported the CMI – in sharp contrast to its negative 1997 reaction to the AMF proposal. China has established BSAs with six countries,⁴⁷ with the total size of its support amounting to US\$17.5 billion (as of July 2007). Moreover, all four BSAs between China and ASEAN countries are for one-way support provision by China. China's active participation in the CMI is a noticeable departure from its traditional reluctance to join a regional cooperative framework (Sohn, forthcoming), and signals willingness on its part to play a constructive role in dealing with its East Asian neighbors. Moreover, voices have grown within China stating that an AMF – and eventually a common Asian currency – should be established, separately from the IMF (*Asahi News Service*, July 10, 2000).⁴⁸

⁴⁶ In recent years, China has made substantial efforts to strengthen its relationships with ASEAN countries – in order to continue attracting investment by overseas Chinese, to secure the shipping lanes for its seaborne energy resources, to enhance its favorable access to ASEAN markets, to maintain a stable security environment in the region, etc. (Hwang and Chey, 2007). For more about China-Southeast Asian relations, see, for example, Cai (2003), Vatikiotis (2003) and Wong et al. (2006).

⁴⁷ The six countries are Japan, South Korea, Thailand, Malaysia, the Philippines and Indonesia.

⁴⁸ Since the late 1990s, China has become a strong advocate of East Asian regional cooperation not only in economic but also in security-related areas (Kurlantzick 2007).

The rising Chinese support for East Asian financial cooperation appears to stem partly from its foreign policy objective of taking leadership in the region. However, there are three additional important factors behind it. First, China's growing integration into the global economy appears to be a critical factor. Since China joined the World Trade Organization in 2001, it has faced increasing pressure to open its financial markets, and its growing financial liberalization may expose it more to the risk of financial instability. In these new circumstances, China appears to expect that regional financial cooperation through such mechanisms as the CMI could be an important factor helping to stabilize its own financial situation (Xu, 2003).⁴⁹

Second, China has changed stance so that it now puts higher priority on reducing United States influence than on limiting Japan's role in East Asia (Rapkin, 2001: note 36). The Sino-US relationship worsened due to the US-led NATO war in Kosovo in 1999, and China has since then begun to see the United States as the main threat to its interests (Bowles, 2002: 257). In this changed context, China has begun to view regional arrangements, particularly those that exclude the United States, as effective means of reducing US influence in East Asia (Berger 2006: 26). Meanwhile, China has become increasingly tolerant of seeing Japanese gains in the region, including expansion of the role of the yen, insofar as China can also derive benefit. Indeed, as shown above, China did accept the yen-denominated BSA with Japan in exchange for the reciprocal yuan-denominated one. In other words, as Sohn (forthcoming) indicates, inside the Chinese policy community a positive-sum view relative to regional financial

⁴⁹ The need for China to use regional financial cooperation as a means of securing its own financial system stability may not be high at this moment, in view of its large volume of foreign exchange reserves (US\$1,202 billion as of April 2007). However, given the costs of holding huge amounts of foreign exchange reserves, such a policy can benefit China in the long term.

cooperation appears to have begun taking precedence over the zero-sum view.⁵⁰ This change in China's view of regional financial cooperation is partly attributable to the positive outcomes its earlier participation in regional multilateral arrangements such as the ASEAN Regional Forum (Sohn, forthcoming) have produced.⁵¹

Finally, China has begun to place greater emphasis on its Asian identity since the late 1990s. China's sense of its Asian identity was quite low until the 1997 Asian financial crisis. However, China was unhappy with the IMF bail-out programs during the crisis, viewing the West in general, and the United States in particular, as having exploited the crisis to advance a particular economic agenda aimed at serving their own interests. China's resentment of the IMF policies has led the country to share with its Asian neighbors the sense of common victimhood vis-à-vis Western countries, and helped it develop the sense of its Asian identity. This has in turn led it to support East Asian-only regional financial cooperation as a means of reforming the existing international economic order (Sohn, forthcoming).⁵²

⁵⁰ The claim of China's growing positive-sum view of regional financial cooperation is supported by the following comments by Zhong Wei, senior government consultant on Chinese foreign financial policy, on the development of Asian bond markets: "If China actively supports the move for an Asian bond market, the Japanese yen will dominate the proposed market and assets valued in yen will become the biggest gainers. China cannot get big direct benefits... [However,] in any case, the proposal to set up such a common market is highly valuable, and it needs the continuous efforts and close coordination of all participants" (Sohn, forthcoming).

⁵¹ The ASEAN Regional Forum, established in 1994, is the principal forum for security dialogue in Asia. Tang Shiping, prominent foreign policy analyst at the Chinese Academy of Social Science, commented that China's participation in regional multilateralism has created "a self-reinforcing virtuous cycle propelling China's regional strategy" (Sohn, forthcoming).

⁵² China's embrace of East Asian financial cooperation may also have stemmed from its need to demonstrate its benign behavior and thereby reduce "China threat" perceptions in the region. However, this "China threat" rationale is not likely to explain China's change to supporting East Asian financial cooperation from the late 1990s, since "China threat" perceptions were circulating in the region throughout the 1990s as well (Sohn, forthcoming).

In the final analysis, Japan and China appear to share, in principle, a common policy goal – establishment of a regional institution that can represent Asian identity and voices. This appears to have made it possible for the two countries to cooperate in development of the CMI. In other words, their basic consensus on the need for developing “Asian” regionalism appears to have broadened the room for cooperation with each other.⁵³ Of course, both countries do also have other long-term policy objectives in supporting CMI development. However, such policy objectives have so far worked in harmony with the boosting of cooperation by the two countries.⁵⁴

2. Weakening opposition from outsiders

In contrast to the 1997 AMF proposal, the CMI has not faced strong opposition from non-East Asian countries, including the United States. For instance, in May 2001, Paul O’Neill, then US Treasury Secretary, said in a news conference that he did not see why the United States should stand in the way as long as the CMI “makes sense to the participants” (*Agence France Presse*, May 10, 2001).⁵⁵ Indeed, the United States has not taken any serious action to block development of the CMI.

The softened stance of the United States toward the CMI, however, does not mean that its traditional opposition to a regional grouping that excludes it has disappeared. Concerns about such regionalism remain firm in US policy circles. For instance, a US government study in January 2000 listed regional financial cooperation such as the

⁵³ Bowles (2002) and Terada (2003, 2004) also argue that “Asian” regionalism has developed substantially during the 2000s. In this regard, it is noteworthy that the Manila Framework eventually broke up in 2004, as it was ineffective in producing meaningful outcomes.

⁵⁴ It may even be possible for Japan and China to use the East Asian economic cooperation dynamic to limit or constrain their rivalry (Bergsten 2007: 8-9).

⁵⁵ Since the early 2000s, the IMF also has not expressed strong opposition to the CMI or to establishment

1997 AMF proposal as one of the ten biggest threats to the US position in the world (*The Nation*, December 25, 2006). The United States has also continued to emphasize that East Asian economic cooperation should be open to outsiders, expressing its strong desire to be an active participant in the region.⁵⁶ In fact, the United States has kept a cautious watch on development of the CMI, stressing the necessity of its compatibility with the existing international financial system.⁵⁷ The United States' policy preference for "open" regionalism and its opposition to "closed" regionalism in East Asia clearly remain strong.⁵⁸

The non-opposition of the United States to the CMI is partly attributable to the APT countries' careful efforts to reduce US suspicions that the CMI could challenge its interests. For instance, when the CMI was initially created Japan advised other APT countries to play down its own lead role, so as to assuage US opposition (*Agence France Presse*, March 24, 2000). In their joint ministerial statements, APT countries have also explicitly reiterated that the CMI will "supplement the existing international

of an AMF.

⁵⁶ For example, in December 2004, Mitchell Reiss, then Director for Policy Planning of the US State Department, noted, "East Asians are developing a distinctive path to regional integration. And the United States, as a traditional western Pacific power, must remain involved.... For our part, we seek an East Asia that is open and inclusive" (*The Nikkei Weekly*, December 13, 2004). Also, in June 2005, Donald Rumsfeld, then US Secretary of Defense, urged advocates of Asian regional cooperation not to exclude the United States (*Financial Times*, December 14, 2005).

⁵⁷ In June 2006, Timothy D. Adams, then Under Secretary for International Affairs, US Department of the Treasury, commented, "Specifically, we see room for further clarity on the Chiang Mai Initiative. Too little is known by the markets or by borrowers about amounts available absent IMF adjustment programs, and conditions, if any, CMI creditors would impose. More clarity on these issues would aid an assessment of the CMI's compatibility with the international system" (*US Fed News*, June 15, 2006).

⁵⁸ The United States has also pushed for bilateral Free Trade Agreements (FTAs) with individual East Asian countries in recent years, as a means to counter the intra-East Asian network of FTAs (Bergsten, 2007: 2). Furthermore, US President George W. Bush has proposed creation of a Free Trade Area of the Asia Pacific, which would embed the Asia-only trade initiatives in a broader framework that included the

financial arrangements.” In the CMI, moreover, any country drawing more than 20 percent of its maximum drawing amount is required to accept an IMF program. These circumstances appear to have made it difficult for the United States to justify opposing the CMI and given the United States an impression that the CMI will not run counter to US interests.

The careful APT emphasis on a “low-profile” for the CMI cannot, however, fully explain United States non-opposition to it. In fact, Japan also made similar endeavors to reduce US and IMF opposition to the 1997 AMF proposal, by emphasizing that the AMF would act in concert with the IMF and would not provide easy credit (*Business Times*, October 2, 1997; *The Nikkei Weekly*, October 20, 1997). Japan even stressed that, just as is the case now with the CMI, any financing package would continue to require conditionality specified by the IMF (*Business Times*, October 30, 1997). The United States was not swayed at that time, however, and would not tolerate creation of an AMF. Of course, the United States may at the time have distrusted these efforts by Japan. However, the CMI also involves elements that could lead the United States to doubt its supplementary nature vis-à-vis the IMF.

For example, even though the CMI fund disbursement mechanism is currently linked with an IMF program, this linkage has weakened. The swap amount a country could draw without connection with an IMF program was initially only 10 percent of its maximum drawing amount. From 2006, however, that proportion has been increased to 20 percent. Moreover, in discussing the disbursement mechanism of the multilateralized CMI, APT countries are currently considering the option of allowing a country to borrow its full drawing amount without any IMF program linkage.⁵⁹ In

United States itself and would thereby eliminate any discrimination against it (Bergsten, 2007: 3).

⁵⁹ The two other alternatives are to either maintain the current mechanism, under which a country must

these circumstances, it would not be surprising if the United States may anticipate a decline in the linkage between the CMI and the IMF.⁶⁰

In this regard, one important factor in explaining non-opposition to the CMI by the United States appears to be the cooperation between Japan and China, which clearly distinguishes the CMI from the 1997 AMF proposal. This cooperation may have reduced the ability of the United States to object to the CMI, leading it to regard what was once objectionable as a *fait accompli*. Fred C. Bergsten, Director of the Peterson Institute for International Economics, indicated (2007: 7):

The Asian consensus in favor of regional integration has already progressed beyond the point where the United States could block the initiative unless it devoted major resources to the task and was willing to bear the considerable costs that would result.

Perhaps in response to such concerns about the difficulty of direct opposition, the United States has instead taken indirect actions that may reduce East Asian countries' incentives to seek a strong regional financial institution. One notable example is the US recent support for reform of the IMF voting system, although this has not

accept an IMF program in order to borrow more than 20 percent of its quota, or to increase that maximum amount for non-IMF-linked borrowing to 50 percent of a country's quota.

⁶⁰ It should also be noted that the linkage with an IMF program is not just to keep the CMI supplementary to the IMF. The linkage serves the interests of prospective creditors (Japan, China and South Korea) as well, as they will wish any money they provide to be spent properly without creating moral hazard. Indeed, the three countries have insisted on a surveillance mechanism supervised by the IMF, despite opposition from some ASEAN countries (*Channel News Asia*, April 7, 2001; *Malaysia Economic News*, April 7, 2001).

produced any substantial outcome so far (see *Inter Press Service*, June 9, 2005; *US Fed News*, June 15, 2006).

In addition to Japanese-Chinese cooperation, another important reason for US non-opposition to the CMI may be the growing worries within the United States that if it tries to forestall East Asian cooperation it will only worsen its image and influence in the region (Bergsten 2007), which have already been seriously damaged by issues such as US policies during the Asian financial crisis, the Iraq war, and the war on terrorism. In other words, US efforts to block development of East Asian cooperation would exacerbate anti-Americanism in the region.⁶¹ At the same time, they would enhance the appeal of China to its neighbors because it could be seen as defending East Asian interests against the United States (Kurlantzick 2007: 74). In these circumstances, the view has been increasing within the US itself that it needs to support East Asian cooperation, while working to ensure it remains a major partner in the region (see Bergsten 2007; Kurlantzick 2007).

Finally, there is the likelihood that the United States is not opposing development of the CMI because of the benefits it may also derive from it. The development of the CMI may contribute to economic stability in East Asia, reducing the potential burdens on the US in managing economic instability in the region and allowing it to allocate resources for other policy objectives. Regional economic stability may also lessen the risks US firms face in investing in the region. Moreover, development of the CMI may strengthen the responsibility of East Asian countries for their own economic stability

⁶¹ Anti-Americanism has been an important subject of political debate in recent years, both within and outside the United States, leading a number of prominent US scholars to study it. See, for an example of recent work on the topic, Katzenstein and Keohane (2006).

and thus lead them to accelerate financial reforms, which is something the United States has advocated.

V. Conclusions

This study has demonstrated that the political dynamics of East Asian financial cooperation have changed substantially, and that it is this that has led to the successful evolution of the CMI. One critical element in these changed political dynamics is the cooperation between the region's two major powers, Japan and China. Since the Asian financial crisis, Japan has become positive about taking regional financial initiative, while China has become more willing to cooperate with Japan and to support East Asian financial cooperation. In addition, the United States has come to tolerate development of East Asian financial cooperation, as its capabilities to block such a movement have declined, and also as it too stands to benefit from development of this cooperation.

If multilateralization of the CMI proceeds successfully, it may imply that an East Asian regional monetary fund has been established. Such a fund can then be expected to enhance East Asian financial cooperation in other areas, for example, by serving as a lender of last resort and/or being combined with other forms of regional financial facilities. At this point, it should of course be stressed that, in order to contribute to political and economic stability in the region and the world, East Asian financial cooperation should progress in a way that can be accepted globally. Unless a regional cooperative institution adopts globally-acceptable rules, its effectiveness could be in doubt. For example, if the rules of operation of a regional monetary fund are not

globally acceptable, market participants' trust in its effectiveness will be low, and it will therefore be unable to function effectively.

Certainly, there remain a number of obstacles that may hinder further development of East Asian financial cooperation. Moreover, as East Asian economies have recovered from the 1997 crisis, fears of another regional financial crisis have receded to some extent, reducing incentive for further cooperation. However, although the Asian financial crisis was the catalyst behind the recent development of East Asian financial cooperation, the fear of financial crisis is no longer the only driving force. The changed political dynamics in East Asia are another factor that has driven it. Notably, Sino-Japanese relations have shown improvement in recent years, as China has become more willing to improve its relations with Japan.⁶² Thus, even though there remain many problems in achieving deeper East Asian financial cooperation, there is little doubt that its *possibility* has increased.

Yet, it should be emphasized that for success in CMI multilateralization and for deepening of East Asian financial cooperation, there needs to be a country able to coordinate the interests of all APT countries. In this regard, South Korea is noteworthy. It would be possible for South Korea, using its position to complement the leadership by Japan and China, to play a constructive role similar to that of the Benelux countries in Europe, which supported European integration and served as a lubricant for coordinating the varied interests of smaller countries (JCER, 2005). In fact, South

⁶² For example, in April 2007, China's premier Wen Jiabao gave a carefully calibrated speech to Japan's parliament – the first there by a Chinese leader in more than two decades. In his speech, Wen gave unusually forthright recognition of Japan's apologies for wartime history and highlighted the significant role that Japanese aid has played in China's development in recent decades (*Financial Times*, April 12, 2007). The Chinese government has also ordered the Chinese media to tone down its often hostile coverage of Japan (*Financial Times*, April 8, 2007).

Korea encouraged ASEAN countries to participate responsibly in the CMI, by establishing mutually-supporting BSAs with them. Moreover, given that South Korea is a member of the Organisation for Economic Co-operation and Development, and given its valuable experience of overcoming the 1997 Asian financial crisis successfully, it would seem to be in a position to provide East Asian neighbors with numerous examples of success related to financial reform (JCER, 2005). Thus, South Korea can be expected to play the role of interest coordinator for APT countries in the process of East Asian financial cooperation (JCER, 2005).

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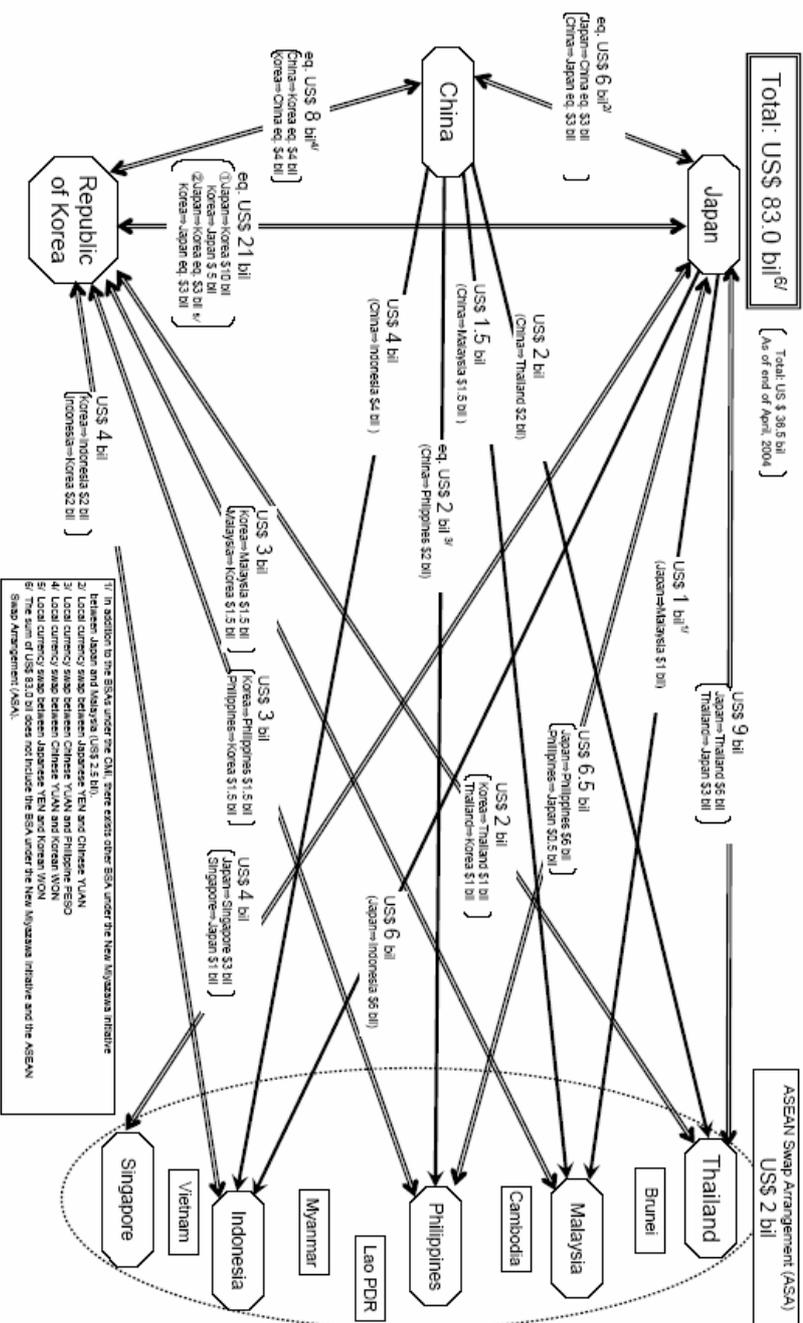
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Appendices

Appendix 1: The network of BSAs in the CMI (as of April 2007)



Source: The Ministry of Finance of Japan, http://www.mof.go.jp/english/ff/CMI_0704.pdf

Appendix 2: Chronology of CMI development

Nov. 1999	<p>APT Summit (Manila, the Philippines)</p> <ul style="list-style-type: none"> - APT leaders agreed to enhance self-help and support mechanisms in East Asia through the APT framework.
May 2000	<p>APT Finance Ministers' Meeting (Chiang Mai, Thailand)</p> <ul style="list-style-type: none"> - APT finance ministers agreed to establish the CMI, in order to strengthen self-help and support mechanisms in East Asia.
May 2004	<p>APT Finance Ministers' Meeting (Jeju, South Korea)</p> <ul style="list-style-type: none"> - APT finance ministers agreed to undertake review of the CMI, to explore ways of enhancing its effectiveness.
May 2005	<p>APT Finance Ministers' Meeting (Istanbul, Turkey)</p> <ul style="list-style-type: none"> - APT finance ministers agreed to take the following measures to enhance the effectiveness of the CMI as a self-help and support mechanism: <ul style="list-style-type: none"> (1) integration and enhancement of APT economic surveillance into the CMI framework (2) clear definition of the swap activation process and adoption of a collective decision-making mechanism (3) significant increases in the swap sizes (4) improvement of the drawdown mechanism
May 2006	<p>APT Finance Ministers' Meeting (Hyderabad, India)</p> <ul style="list-style-type: none"> - A collective decision-making procedure for swap activation was adopted. - The Group of Experts and the Technical Working Group on Economic and Financing Monitoring were launched, to explore ways for further strengthening of surveillance capacity. - Deputies were tasked with setting up a task force to further study various possible options related to CMI multilateralization.
May 2007	<p>APT Finance Ministers' Meeting (Kyoto, Japan)</p> <ul style="list-style-type: none"> - APT finance ministers agreed in principle that a self-managed reserve pooling arrangement governed by a single contractual agreement would be an appropriate form for CMI multilateralization proceeding by a step-by-step approach. - Deputies were instructed to carry out further in-depth studies on the key elements of CMI multilateralization, including surveillance, reserve eligibility, size of commitment, borrowing quotas and the activation mechanism.