ASEAN-Canada Research Partnership Working Paper Series
Working Paper No. 2
April 2014

Towards an East Asian Financial Community: An Institutionalist Perspective

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This paper is the outcome of research conducted by junior fellows of the 2012–2015 ASEAN-Canada Research Partnership with the aid of a grant from the International Development Research Centre (IDRC), Ottawa, Canada. It focuses on the theme of 'Towards Balanced Growth – Alternative Development Models and Redistribution Mechanisms'.

The ASEAN-Canada Research Partnership was launched in January 2012 to mark the 35th Anniversary of the ASEAN-Canada Dialogue Partnership. It is jointly conducted by the Institute of Asian Research (IAR), University of British Columbia (UBC), as well as the S. Rajaratnam School of International Studies (RSIS). RSIS is the Coordinator of the initiative. It also serves as the Secretariat. Information on IAR UBC and RSIS may be found at www.iar.ubc.ca/ and www.rsis.edu.sg respectively

Recommended Citation

Supanai Sookmark, 'Towards an East Asian Financial Community: An Institutionalist Perspective' (ASEAN-Canada Working Paper Series no. 2, Singapore: RSIS Centre for Non-Traditional Security (NTS) Studies, 2014).

Abstract

This paper seeks to understand the changing financial landscape in East Asia that resulted from ongoing regional financial cooperation among ASEAN+3 countries. It examines the development of the Chiang-Mai Initiative Multilateralisation (CMIM), which is aimed to provide regional financial safety nets in times of crisis, and the promotion of regional bond markets under the Asian Bond Market Initiative (ABMI), particularly the Credit Guarantee Investment Facility (CGIF), in order to explain the changes that occur to regional financial infrastructure and to evaluate their early implications, particularly with regard to the relationship with global financial governance and regional development goal of equitable and inclusive development. The main research questions are what kinds of rules are being put in place under these mechanisms and how they differ from the existing rules? What are the contributing factors or rationale behind the development of these mechanisms? And judging from their recent progress, what could be the implications of the CMIM and ABMI on existing global financial structures and regional development? Guided by an institutionalist approach, the paper argues that the CMIM and ABMI are designed to change the rules of the game in global finance in order to better serve regional and individual member's needs and interests. These rules themselves are largely shaped by the global political economy context, power relations among members, existing practices and models, and regional identity. While both the CMIM and ABMI contribute positively to the integration process, the results are mixed when measured against ASEAN's goal of equitable and inclusive development. Despite having laid down some infrastructure and decision-making procedures that are compatible with this objective, the differences in member countries' level of development and financial capacity, the pursuit of multiple objectives and the lack of substantive discussion on within-country inequality can be major obstacles toward equitable and inclusive growth.

Biography

Supanai Sookmark received her BA in Political Science from Chulalongkorn University in Thailand. She worked for the Ministry of Foreign Affairs of Thailand for a number of years before pursuing a Master's degree in the same field at University of Missouri-Columbia and a doctoral degree at Carleton University in Ottawa, Canada. Her dissertation deals with the issue of central bank independence and the politics of central banking in Thailand by focusing on the role of the Thai central bank in shaping the country's monetary and financial policy from the 1940s to the early 1990s that culminated in the process financial liberalization. After graduation from Carleton, Supanai continues to teach at the Department of Political Science at Carleton as contract instructor. Her areas of interests include political economy of global finance, development of the Global South and politics of central banking. From 2012-2013, she received a fellowship from the ASEAN-Canada Research Partnership program, funded by ASEAN and Canada's International Development Research Centre. Her research project examines the contribution of regional financial arrangements within the framework of ASEAN+3, particularly the Chiang-Mai Initiative Multilateralisation and the Asian Bond Market Initiative, to monetary and financial integration among ASEAN+3 member countries. Her current research interest extends from this last project to focus on the impact of regional economic integration in East and Southeast Asia on the pattern of lending and access to credit in member countries.

Acknowledgements

I would like to thank Professors J. Soedradjad Djiwandono and Richard Barichello for their valuable comments on the proposal and paper and to Professors Mely Caballero-Anthony, Pradumna Bickram Rana, J.S. Djiwandono and Kaewkamol Pitakdumrongkit for the interviews. My appreciation also goes to anonymous reviewers and RSIS staff who helped facilitate the publication of this paper.

Introduction

Over a decade after the Asian financial crisis, regional financial cooperation in East Asia, particularly among ASEAN and its three East Asian counterparts, namely China, Japan and South Korea or ASEAN+3, has never been more vibrant. The Chiang Mai Initiative Multilateralisation (CMIM), which was established to strengthen the bilateral swap arrangements among the ASEAN+3 countries to help them fight financial crises since 2000, became a multilateral facility in 2010. In the same year, ASEAN+3 agreed to set up the ASEAN Macroeconomic Research Office (AMRO) to monitor the health of members' economies and assist CMIM in decision-making process. Recently in May 2013, AMRO is on its way to becoming an international organisation, which would add to its weight and legitimacy. Alongside the construction of a regional financial safety net, attempts to promote regional bonds have been gathering momentum. The ASEAN+3 countries launched the Asian Bond Market Initiative (ABMI) in 2003 to help local bond issuers and investors capitalize on regional financial resources. In 2008, the ABMI's objectives have been revised and streamlined to achieve more tangible outcomes. Among the most prominent results is the launching of the USD$ 700-million Credit Guarantee Investment Facility (CGIF) in 2010 to stimulate the growth of regional bond markets by providing guarantees to corporate bond issuance in local-denominated currencies. Recently in April 2013, the first CGIF guarantee was extended to a Singaporean-based commodity trading company upon its issuance of Thai-baht bonds worth Bht2.8 billion.

Intrigued by this regional dynamic, this paper seeks to understand the changing financial landscape in East Asia that resulted from ongoing regional financial cooperation among ASEAN+3 countries. It examines the development of the CMIM, which is aimed to provide regional financial safety nets in times of crisis, and the promotion of regional bond markets under the ABMI, particularly the CGIF, in order to explain the changes that occur to regional financial infrastructure and to evaluate their early implications, particularly with regard to the relationship with global financial governance and regional development goal of equitable and inclusive development. The main research questions are what kinds of rules are being put in place under these mechanisms and how they differ from the existing rules? What are the contributing factors or rationale behind the development of these mechanisms or, in other words, why they are the way they are? And judging from their recent progress, what could be the implications of the CMIM and ABMI on existing global financial structures and regional development? To answer these questions the paper argues that the CMIM and ABMI are designed to change the rules of the game in global finance in order to better serve regional and individual member's needs and interests. These rules themselves are largely shaped by the global political economy context, power relations among members, existing practices and models, and regional identity. So far they have been positively contributing to the process of regional integration but their future success needs to be measured against their effectiveness in achieving what they are meant to do in the long run and against regional development norms of equitable and inclusive growth. These arguments are guided by an institutionalist approach which gives importance to institutions in shaping actors' behaviour and preference. The creation of regional financial safety nets or the promotion of regional bond markets can be seen as a process of institution-building where certain rules, guidelines or standard procedures, have been established in order to guide government responses to crises (in the case of CMIM) and market activities (ABMI-CGIF). The choice of these mechanisms reflected the influence of the broader institutional contexts that range from global financial governance to existing dominant practices and regional characters. Finally, in evaluating their impact, insights from an institutional approach can also help shed some light on the challenges to both the CMIM and ABMI (CGIF) that could emerge from path dependence of existing institutions and from competing objectives derived from different rationales and preferences.

Following this introduction, the paper discusses the theoretical framework that guides the main arguments. Section three examines the changes to the rules of the game in regional financial governance brought about by the CMIM and ABMI (CGIF) and discusses some of the challenges facing the two mechanisms to date. Section four explains the contributing factors to the making of these mechanisms which include the global context, power relationship among ASEAN+3, existing practices and models, and regional norms and identities. Section five assesses the implications of the CMIM and ABMI on global financial structures and regional economic development, particularly whether they are complementary to or in competition with existing global structures, and whether they contribute positively to the goals of equitable development and financial inclusion, to be followed by some policy recommendations. The last section concludes.

Theoretical Framework

This paper draws from an institutionalist approach, which has gained attention in the field of political science and political economy over the past two decades. The theoretical influence comes firstly from the 'new institutionalism', which gives importance to the role of institutions, broadly understood as the rules of the game, in shaping actors' behaviour and preference. This assumption gives us a starting point in viewing the CMIM and ABMI as part of the emerging rules of the game in regional financial governance, which has the potential to shape future political and economic interaction in the areas of crisis prevention and bond market development. The emphasis on various types of institutions, which could be formal or informal, material- or ideational based, and macro- or micro-level[1], also helps guide our attention to institutional contexts that shaped the making of the CMIM and the ABMI (seen through the CGIF) that range from the global political economy to regional norms and identities. While some of these institutional factors can be used as benchmarks to assess the implications of these mechanisms on regional integration, the variety in institutional forces shaping the forms and characteristics of the CMIM and ABMI (CGIF) may also help explain competing, or even contradictory priorities. For example, in attempting to promote regional corporate bond markets to overcome the region's heavy reliance on foreign and bank-based borrowing through the CGIF, ASEAN's aspiration for equitable development among member states could be compromised as the CGIF tends to favor larger companies and more established markets of the richer ASEAN economies. In evaluating the newly-created AMRO as part of the CMIM surveillance body, the paper also draws from the 'older' school of institutionalism, particularly Philip Selznik's process of institutionalisation. This process, which refers to a diffusion of norms or values within an organisation over time, can help us think about the connection between AMRO's soon-to-emerge institutional character or identity and its future legitimacy and credibility. The following paragraphs discuss these theoretical frameworks in more detail.

[1] This paper shares its understanding of institutions with historical institutionalists, such as Peter Hall, and some rational choice institutionalists such as Douglass North, who see the function of institutions beyond strategic equilibrium, a view held by most rational choice institutionalists influenced by neoclassical economics. For example, compare Peter Hall's definition of institution, which includes "the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy", and North's definition, "institutions are the rules of the game in a society, or more formally, are the humanly devised constraints that shape human interaction" and that institutions include both formal and informal constraints, such as "rules that human beings devise…and…conventions and codes of behavior." See Peter Hall, *Governing the Economy: the Politics of State Intervention in Britain and France*, (Cambridge: Polity Press, 1986), 19. See also Douglass North, *Institutions, Institutional Change and Economic Performance*, (Cambridge: Cambridge University Press, 1990), 3-4.

Action and Preference

Despite the controversy between the two strands of the 'new institutionalism', namely rational choice institutionalism (RCI) and historical institutionalism (HI), both offer useful insights with regard to how actions and preferences are formed. Rational choice institutionalists, basing their perceptions of individual behavior on neoclassical theory in economics, tend to view political interactions as a result of actors' strategic calculation in order to maximize their interests. However, they depart from their neoclassical counterparts in seeing that strategic calculation does not occur in a political vacuum, and that institutions play an important role in shaping actors' understanding and selection of their strategies. RCI scholars like Shepsle, North and Bates focus their analysis on the role of institutions, defined as both formal and informal rules, norms, procedures, and conventions, in constraining actors' behaviour and political outcomes.[2] HI's attention on institutions comes from different theoretical perspectives.[3] Even though they share the idea that institutions constrain actors' preferences and actions, they seek to problematize the rationality behind actors' behavior (i.e., interest maximization) and the process of preference formation. HI theorists, such as March and Olsen, argue that political actors do not always act to maximize their interests but 'associate specific actions with specific situations by rules of appropriateness'.[4] In other words, they do what they are expected to do through their socialization with existing political and social institutions.[5]

Instead of locating itself strictly in one of the two approaches, this paper finds that both camps have complementary conceptual tools to offer to students of political economy and this research project in particular. At the very beginning, both approaches acknowledge the importance of institutions, which could take many forms, in influencing or constraining choices of preferences and actions. This shared assumption allows us to view the creation of the CMIM and ABMI as attempts to set up new rules of the game in regional financial governance in order to respond better to regional and individual country's need. While it would take some time to see how these rules help shape the outcome of regional crisis prevention or market actors' behaviour in the regional bond market, it is important to identify these emerging rules of the game and distinguish them from the old ones. The similarities and differences between the two can inform us of the nature of their relationships (e.g. complementary or competitive), whether it is an institutional continuity or change, and what could likely be their implications. In the case of the CMIM, it will be demonstrated that the establishment of the regional financial safety net has put in place an alternative set of

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[2] See Kenneth Shepsle, 'Institutional Equilibrium and Equilibrium Institutions', in *Political Science: the Science of Politics*, ed. Herbert Weisberg, (New York: Agathon, 1986); Douglass North, *Institutions, Institutional Change and Economic Performance*, (Cambridge: Cambridge University Press, 1990); and Robert Bates, *Essays on the Political Economy of Rural Africa*, (Berkeley: University of California Press, 1987).

[3] Contributors to HI bring their insights from various academic disciplines. For example, pioneers such as Katzenstein focuses his work on comparative political economy, while Skocpol draws from historical sociology and March and Olsen from organisation theory. See Peter Katzenstein, ed. *Between Power and Plenty*, (Madison: University of Wisconsin Press, 1978); Theda Skocpol, 'Bringing the State Back In: Strategies of Analysis in Current Research', in *Bringing the State Back In*, eds. Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol, (Cambridge: Cambridge University Press, 1985); and James March and Johan P. Olsen, *Rediscovering Institutions: the Organizational Basis of Politics*, (New York: Free Press, 1989).

[4] March and Olsen, *Rediscovering Institutions*.

[5] Many HI theorists do not reject RCI assumption of self-interested behaviour. Hall and Taylor discuss the two approaches within HI, namely the 'calculus' approach which share RCI view of profit maximisation and utilitarianism behind individuals' and collective behaviour, and the 'cultural' approach, focusing on the role of worldview, norms, and routines in shaping behaviour through the process of socialisation. See Peter Hall and Rosemary C.R. Taylor, 'Political Science and the Three Institutionalisms', *Political Studies* 44 (December 1996): 936-957.

arrangements that would help ASEAN+3 countries deal with balance-of-payments problems that could lead to financial crisis. The connection with the IMF, through the IMF-linked portion of the eligible funds, reflects the complementary nature of the CMIM to the existing global financial safety net, led by the IMF. Nevertheless the agreement to include and expand on the IMF de-linked portion over the years also exemplifies the attempts to satisfy the wish of member countries to see this regional mechanism becoming more independent from the IMF in the long run.

This paper also draws from RCI and HI convergence toward multiple sources of preferences and actions. Douglass North, a prominent RCI author, in viewing that actions are not merely decided based on interest-maximisation, but can be driven by ideas and norms, moves closer to HI in understanding of what motivates actions. The view of individuals as following existing conventions and protocols laid down by formal and informal societal rules also puts North closer to March and Olsen's 'rule of appropriateness' in guiding the actions of individual and collective actors.[6] On the other hand, Hall, writing from HI perspective, has moved away from HI's taking-for-granted tendencies in assuming that preferences are passively 'caused' by institutions and places himself closer to RCI's focus on a micro theory or of actions that sees actors more active and directly involved in forming their own preferences.[7]

Such theoretical convergence allows this paper to take into account various contributing factors to the making and development of the CMIM and ABMI (CGIF). The global context, such as the aftermath of the 1997 Asian crisis and the global crisis of 2008, can provide incentives toward regional cooperation in response to the vulnerabilities posed by global economic structures and conditions. But we have to look elsewhere to understand why the CMIM, for example, developed as it did. In this regard, a combination of regional norms, such as pragmatism and gradualism, known to be part of the ASEAN's way[8], played a role in setting the pace and the cautious design of CMIM. The norm of inclusiveness, central to ASEAN's equitable development agenda[9], also helped shape the CMIM's decision-making process and quota allocation that favor smaller member economies. And like other international negotiations, interest calculation is intrinsic to the bargaining process and is reflected in the different positions held by 'borrowing' and 'lending' countries in the ASEAN+3 group[10]. By combining insights from RCI and HI, we are able to account for the different aspects and stages of the development of the CMIM and ABMI (CGIF), such as timing, model selection, and negotiation outcomes. As suggested above, ASEAN+3 policymakers' concerns and preferences, shaped by various institutional factors, can lead to competing goals and priorities, such as in the case of the CGIF, where the objective to promote corporate bond issuance to tap into regional savings tends to favor large companies and larger economies of ASEAN, therefore has a potential to compromise the equitable development goal. Our evaluation of the CMIM and ABMI (CGIF) will discuss these problems. With regard to the theoretical convergence, future work need to improve on this

[6] See Douglass North, *Institutions, Institutional Change and Economic Performance*, (Cambridge: Cambridge University Press, 1990), chapter 3. See also North, *Understanding the Process of Economic Change*, (Princeton: Princeton University Press, 2005).
[7] See Peter Hall, 'Preference Formation as a Political Process: The Case of Monetary Union in Europe', in Katznelson and Weingast, *Preferences and Situations: Points of Intersection between Historical and Rational Choice Institutionalism*, (New York: Russell Sage Foundation, 2005), 135-136.
[8] The term takes after the 'ASEAN way' which authors, such as Amitav Acharya, use to refer to the distinctive characters or identities shared among ASEAN policymakers in their interaction with one another or in dealing with ASEAN issues.
[9] See 'The ASEAN Framework for Equitable Economic Development', ASEAN Official Website, accessed 4 July, 2013, http://www.asean.org/news/item/the-asean-framework-for-equitable-economic-development.
[10] Interestingly, since the CMI has been multilateralised, 'borrower' mentality has been in decline as the new rules require all member states to lend when the CMIM is invoked.

bridging to learn more about the type of situations which would likely call for interest-maximisation, logic of appropriateness or how actors prioritize different kinds of motivation.

Process of Institutionalisation

Selznick's idea of a process of institutionalisation of an agency provides a theoretical basis for my assessment of the AMRO. This process refers to a phenomenon in which an organisation is infused with value beyond its technical requirements and develops a distinctive identity or what he calls 'institutional character'.[11] This distinctive identity is crucial to public perception of that organisation, particularly with regard to its reputation. In my research on the evolution of the Bank of Thailand, the Bank's institutional character, seen by the public as being a source of moral authority, technical excellence and a guardian of national interests, played an important role in shaping its credibility and de facto independence. While the AMRO is still at its infancy, there are signs that its technical expertise and effectiveness have earned the organization confidence among ASEAN+3 states. However, without formal authority to make member states follow its recommendations, it is important for the AMRO to rely on its credibility and public support to enhance the chance for policy implementation. Here, Selznick's insights help us see that institutional character, which represents an organization's value and culture, can be very important to how that organisation is seen and accepted by the public beyond its technical function. Our recommendations to the AMRO to build its organisational values from the aspiration of the ASEAN community, such as equitable and inclusive development, are drawn from this line of argument.

Changing the Rules of the Game in Regional Finance

We begin by examining the changes in the rules of the game in regional financial governance brought about by the CMIM and ABMI (CGIF) and will discuss the likely challenges facing these mechanisms in the areas of regional financial safety net and bond markets.

The Chiang Mai Initiative Multilateralisation (CMIM)

The Chiang Mai Initiative Multilateralisation or CMIM, which came into effect in March 2010, is a regional facility aimed to provide financial safety net to the ASEAN+3 countries that face balance-of-payments and liquidity problems.[12] Building on the Chiang Mai Initiative (CMI), which was a system of regional bilateral swap arrangements, the CMIM is a single contract, self-managed reserve pooling, currently at the size of $240 billion with 20% of the contribution coming from ASEAN and 80% from the plus three countries (Table 1).[13] This contribution, which is codified in the CMIM Agreement, is related to each member's voting power and the amount of swap quota it can borrow from the CMIM (Table 1). Member countries can have relatively quick access to the first 30 per cent of their borrowing quotas if they meet certain basic lending requirements.[14] However, should they need the rest of the

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[11] See Philip Selznick, *Leadership in Administration: a Sociological Interpretation*, (Berkeley: University of California Press, 1957).

[12] The scope of the CMIM has been expanded from crisis resolution facility to include crisis prevention facility (or CMIM Precautionary Line) in 2012.

[13] See more background information on the development of the CMIM in Hall Hill and Jayant Menon, 'Financial Safety Nets in Asia: Genesis, Evolution, Adequacy, and Way Forward', *ADB Working Paper Series* 395 (2012).
Available: http://www.adbi.org/working-paper/2012/11/12/5330.financial.safety.nets.asia/

[14] The IMF-delinked portion was increased from 20 per cent in 2012. In 2014, ASEAN+3 leaders would discuss the possibility of increase this portion to 40 per cent. See the Joint Statement of the 15th ASEAN+3 Finance Ministers and Central Bank Governors' Meeting (AFMGM+3), 3 May 2012,

eligible fund, IMF conditionality will then be applied. In order to strengthen the CMIM's lending decision, the AMRO was established in 2011 to provide independent surveillance on regional and member country's macroeconomic conditions.[15] After two years of operation, an agreement was reached in 2013 to upgrade the AMRO's status to an international organisation, largely to add more weight and legitimacy to its dealing with member states and other international organisations.[16]

Let us now take a look at the new 'rules of the game' that have been put in place and the challenges they need to overcome. At a functional level, the CMIM lays down the rules for the creation and functioning of the mechanism and the interactions among the ASEAN+3 counterparts. The CMIM Agreement establishes the basic principles for the CMIM, such as the objectives and scope of the CMIM facilities[17], lending conditions, maturity and supporting period, and decision-making.[18] The Operational Guidelines provide necessary information that country officials and decision-makers need to follow when the CMIM is invoked, particularly the disbursement procedures.[19] However, what remains unclear is the conditionality to be attached to the IMF-linked portion. While the general idea is for borrowing countries to submit to IMF guidelines, there is no agreement on which set of 'guidelines' to adopt and suggestions have been made to develop CMIM's own conditionality to enhance sense of ownership among member countries.

Manila, the Philippines, posted on ASEAN+3 Macroeconomic Research Office's website. http://www.amro-asia.org/wp-content/uploads/2012/05/120503AFMGM+3-JS.pdf.

[15] See 'Financial Safety Nets in Asia', 7-8.

[16] See Reza Siregar and Akkharaphol Chabchitrchaidol, 'Enhancing the Effectiveness of CMIM and AMRO: Selected Immediate Challenges and Tasks', *ADB Working Paper Series* 403, (2013). See also the Joint Statement of the 16th ASEAN+3 Finance Ministers and Central Bank Governors' Meeting 3 May 2013, Delhi, India. http://www.amro-asia.org/wp-content/uploads/2013/05/16th-AFMGM+3-Joint-Statement_2013-India.pdf

[17] There are two types of facilities, including crisis resolution and crisis prevention. The latter was added in 2012 to complement the existing crisis resolution function. See AFMGM+3's 15th Joint Statement, 2012.

[18] See the key points in CMIM Agreement in Annex I of AFMGM+3's 15th Joint Statement, 2012. The most recent agreement has been approved at the 2013 ASEAN Finance Ministers and Central Bank Governors' Meeting in Delhi and is awaiting ratification by member states.

[19] Based on the current operational guidelines, requests for swap arrangements would be processed and disbursed within seven days. See 'Enhancing the Effectiveness of CMIM and AMRO', 5.

Table 1

Countries	Financial Contribution (billion USD)	Share (%)	Maximum Swap Amount (billion USD)
Plus Thee	**192.00**	**80.00**	**117.30**
Japan	76.80	32.00	38.40
China	68.40	28.50	34.20
Hong Kong	8.40	3.50	6.30
South Korea	38.40	16.00	38.40
ASEAN	**48.00**	**20.00**	**126.20**
Indonesia	9.104	3.793	22.76
Thailand	9.104	3.793	22.76
Malaysia	9.104	3.793	22.76
Singapore	9.104	3.793	22.76
Philippines	9.104	3.793	22.76
Viet Nam	2.00	0.833	10.00
Cambodia	0.24	0.100	1.20
Myanmar	0.12	0.050	0.60
Brunei	0.06	0.025	0.30
Lao	0.06	0.025	0.30
Total	**240**	**100.00**	**243.50**

Source: Reza Siregar and Akkharaphol Chabchitrchaidol, "Enhancing the Effectiveness of CMIM and AMRO: Selected Immediate Challenges and Tasks", *ADB Working Paper Series*, No. 403, January 2013. Also see CMIM Agreement at AMRO Website.

At a broader level of global financial governance, the CMIM is an attempt by ASEAN+3 to set up a system of financial safety net that directly serves the need of member countries. The painful experience in relying on the IMF-led liquidity support system during the 1997 Asian financial crisis has led to the desire to reduce the dependence on the global financial arrangements. The setting up of the CMIM, therefore, will have the potential to change the rules of the game in the area of crisis resolution and prevention as it offers additional mechanisms to ASEAN+3 members to respond to future liquidity and balance-of-payments problems aside from the existing IMF-led system. The challenge is to make this mechanism a serious option that member states would turn to, which so far has not been the case.[20] Nevertheless, as member countries continue to improve on the CMIM's capacity, such as increasing the size of the fund and the IMF-delinked portion, reducing disbursement time, and establishing independent surveillance body, the possibility for the CMIM to become a real alternative is not inconceivable. The paper will discuss the CMIM effectiveness in the fifth section.

With regard to the interaction among member states, a gradual change is also making its way. Not only does the multilateral nature of the CMIM require a great deal of commitment from the ASEAN+3 members, it also helps reshape their role in managing the reserve pool. An AMRO official observes that member states have become more interested in one another's macroeconomic conditions as they are all financial contributors to the fund and would be directly financial responsible if the swap arrangements are being invoked.[21] This is a shift from the non-interference mentality commonly seen among ASEAN leaders and the 'borrower' attitude some assumed before their role in the CMIM changed.

Finally, the establishment of the AMRO is another potential benchmark of rule-setting for regional financial governance. The lack of regional cooperation in the area of macroeconomic surveillance and monitoring was among the original concerns that led to the setting up of the Manila framework after the Asian financial crisis.[22] But as the CMI materialised, economic surveillance was left to be conducted through the Economic Review and Policy Dialogue (ERPD), taking place only twice a year at deputy-level meetings.[23] This process was criticised as having limited resources and being subject to bureaucratic negotiation.[24] The creation of the AMRO as a surveillance unit of the CMIM improved the situation significantly. Having its own staff to produce regularised surveillance reports, the CMIM's surveillance mechanism has become relatively more independent and institutionalised. The submission of confidential reports directly to senior officials in charge and only a week before high-level meetings helps promote quick dissemination of information and more open discussion among top policymakers.[25] This approach increases the surveillance effectiveness when compared to the constant revision of reports of the former system and the officials' defensive and cautious mentality that would have accompanied a public review process.[26] Interestingly, the AMRO can also help create a tradition of information sharing among member countries that would gradually change the perception toward information disclosure and the standard of data provision in the region.[27] While this development is still at an early stage and rather seen as a challenge than an

[20] For example, during the 2008/2009 global financial crisis South Korea resorted to a swap arrangements with the US Federal Reserve, instead of turning to the CMIM.
[21] Interview by author, Singapore, 20 June 2013.
[22] See Chalongphob Sussangkarn, 'The Chiang Mai Initiative Multilateralization: Origin, Development and Outlook', *ADB Working Paper Series* 230 (2010), 4-5.
[23] Ibid., 13.
[24] Ibid.
[25] See *'Enhancing the Effectiveness of CMIM and AMRO'*, 19.
[26] Ibid.
[27] At the moment there is no unified standard of data reporting. For example, for some member countries, national budgets are largely available only in national language and it is common to have a lag in the posting of the most recent information online.

accomplishment, the requirements for regular and more standardised data submission have the potential to change the way macroeconomic conditions are disclosed and disseminated among ASEAN+3 countries.[28]

There is an agreement among those who are directly involved with the AMRO and its close observers that the office needs to strengthen its organisational and research capacity.[29] The strong support it receives from member countries, recently seen in the move to transform AMRO into an international organisation helps reassure that such needs would very likely be answered.[30] A long-term challenge to the AMRO lies in its institutional development. For example, while keeping surveillance reports confidential has promoted more open discussion among top officials and policymakers, this working-behind-the-scene role could prevent the AMRO from communicating with the public and demonstrating through its work its competence and expertise. The lack of interaction with the public could isolate the AMRO from public attention and support, which it may need to maintain its independence and credibility in the long run. To see the AMRO evolve as a credible and independent institution requires a careful institutional design that should go beyond the focus on the organisation's technical capacity. Section five picks up on this concern and provides some recommendations.

The Asian Bond Market Initiative (ABMI)

The ABMI, like the CMIM, was launched in 2003 in the context of the aftermath of the Asian crisis. The mechanism was established to promote long-term investment and financial stability by helping member countries tap into regional saving pools, while avoiding the pitfalls of currency and maturity mismatches, as seen during the 1997 crisis.[31] These objectives were to be fulfilled through a multi-pronged strategy which addresses a wide variety of issues, such as supply and demand of local bonds, cross-border transaction and settlement, credit rating system, and technical development.[32]

The context of the 2008 global financial crisis and its aftermath gave a push to the ABMI dynamic. Witnessing economic turmoil unfolded in the United States and the contagion that spread to many parts of the world, ASEAN+3 leaders, whose economies were largely able to weather the storm, acknowledged the importance of building sustainable economic growth in the region.[33] As a result, a New AMBI Roadmap was adopted in 2008 to focus on promoting the issuance of local currency-denominated bonds, facilitating the demands of such bonds, strengthening regulatory framework and improving the necessary infrastructure for the bond markets.[34] In 2012, these goals were streamlined by the New Roadmap+ with the intention

[28] In an interview with an AMRO official by this author, data provision and standardisation were among the obstacles facing the AMRO in its information gathering.
[29] See 'Enhancing the Effectiveness of CMIM and AMRO', 20-21. See also the Joint Statement of the 16th ASEAN+3 Finance Ministers and Central Bank Governors' Meeting 3 May 2013, Delhi, India. http://www.amro-asia.org/wp-content/uploads/2013/05/16th-AFMGM+3-Joint-Statement_2013-India.pdf
[30] At the moment recruitment of new staff is ongoing in order to serve the expanding organisation. Interview by author, Singapore, 20 June 2013.
[31] See Chairman's Press Release on the Asian Bond Market Initiative, issued in August 2003 in Makati, the Philippines. http://www.amro-asia.org/wp-content/uploads/2011/11/AFMM3_Makati20030708_1.pdf
[32] Ibid.
[33] See The Joint Ministerial Statement of the 11th ASEAN+3 Finance Ministers' Meeting 4 May 2008, Madrid, Spain. Available at http://www.amro-asia.org/wp-content/uploads/2011/11/AFMM3_Madrid20080504.pdf
[34] See the 15th Joint Statement, 2012.

to achieve more tangible outcomes, sustain the dynamic of ABMI discussion, and address relevant issues in the global financial markets.[35]

Among the various programs and policies put in place under the ABMI, the Credit Guarantee Investment Fund (CGIF) stands out as one that received close attention from member governments. Being established in 2010 as part of the strategies to promote local-currency denominated bonds, the CGIF is to provide guarantees on this type of bonds issued by corporations in the region.[36] The pool of US$700 million-paid-up-capital available to the fund, contributed by ASEAN+3 countries and the ADB, speaks well for the strong commitment behind this regional program. Recently in April 2013, the CGIF provided its first guarantee to the corporate bond issuance denominated in Thai baht by Noble Group, a Singaporean–based commodities trading company at the total value of Baht 2.8 billion.[37] This guarantee would allow Noble Group to diversify its borrowing and tap into the growing Thai bond market, while creating investment opportunities for local investors in Thailand.

Looking at the ABMI and the CGIF from an institutionalist perspective, it can be argued that the mechanism and its recently-established facility seek to lay down the ground works to promote regional bond market integration that would see more cross-border transactions and a rise in demand and supply for local-currency bonds. The weakness of existing regional bond markets, largely due to the long tradition of bank-based financing and the reliance on extra-regional borrowing, requires a great deal of infrastructure-building and positive incentives in order to change investors' behaviour. The CGIF, which is perhaps the most tangible and advanced ABMI facilities, tries to do this by making it easier for local companies to tap into the bond markets of other member countries in order to diversify their funding sources. Its key role is to help these corporate bond issuers gain investors' confidence by providing guarantees on their bonds, along with promoting the region's own credit rating system.[38] Under the existing 'rules of the game', companies in emerging economies tend to receive low ratings from international credit rating agencies as they are largely unknown to the global market. Their ratings are also likely to be restricted by their country's sovereign rating despite the companies' financial soundness.[39] The CGIF's AA+ rating from Standard and Poor's and AAA from a Malaysian credit rating agency (RAM) can help these companies overcome the credibility hurdle and increase market exposure. While it is still premature to determine the CGIF's impact, the increasing role of regional rating agencies has the potential to help compensate for local bond issuers' disadvantage in cross-border expansion.[40]

[35] Ibid.
[36] See the 13th Joint Statement, 2010.
[37] 'Credit Guarantee and Investment Facility Announces Inaugural Guarantee Transaction', Credit Guarantee and Investment Facility, accessed 5 July 2013, http://www.cgif-abmi.org/datas/pdf/Final%20Press%20Release_CGIF_Closing%20Announcement_04262013.pdf
[38] 'The ASEAN Domestic Bond Market Round Table Series: Malaysia and Indonesia', Credit Guarantee and Investment Facility, accessed 18 July 2013, http://www.cgif-abmi.org/assets/uploads/files/9763f-Asiamoney-ASEANBondMarkets-1.pdf
[39] See Eduardo Borensztein, Kevin Cowan, and Patricio Valenzuela, 'Sovereign Ceilings 'Lite'? : The Impact of Sovereign Ratings on Corporate Ratings in Emerging Market Economies', *IMF Working Papers*, (April 2007).
[40] There is evidence of the contribution of local credit rating agencies to the increase in corporate bond issuance in China, Japan, South Korea, Malaysia, and Thailand. See Ilhyock Shim, 'Development of Asia-Pacific corporate bond and securitisation markets', *BIS Papers*, 63 (2012), 6.

The CGIF continue to face many challenges. Despite the growth of regional bond markets in the past decade, especially since 2008,[41] some existing structure and institutions are difficult to change. Among them are the diversity among member countries' bond markets, particularly with regard to size, regulation, and market infrastructure, and the structural imbalances that reflect in the continued low level of private sector participation and low intra-regional investment.[42] While the CGIF was designed to address these imbalances, it too cannot escape their effects. Its unsuccessful deal with Thai Union Frozen in 2012 is a case in point. The company reportedly backed out from what would have been the first CGIF guarantee due to the higher cost in raising funds in the Singaporean bond market.[43] This concern reflects the challenge facing the CGIF in convincing the private sector, many of whom operate largely in a bank-based environment and have certain advantages in accessing domestic funds, to see the benefits in issuing corporate bonds across borders. The CGIF also faces challenges in its financial and organisational capacity. Although the size of US$700 million is not insignificant, with the average deal size of US$75 to 100 million, the CGIF could only choose to guarantee a limited number of companies and could hardly afford a default. This concern is seen connected to its careful selection criteria that would require competent staff and a time-consuming approval process. But this is a work in progress. The positive signs are that the CGIF has been working toward building its organisational capacity, expanding its investment portfolio (US$708 million at the end of 2012), and even considering changing its guarantee ratio in the future.[44]

Contributing Factors to the Making of the CMIM and ABMI (CGIF)

In this section the paper discusses the contributing factors that influenced the making of the CMIM and ABMI (and CGIF). These factors include the broad international political economy context, the power relationship among ASEAN+3 countries, existing practices in global finance, and the distinctive ASEAN and ASEAN+3 characters.

The context of the Asian crisis of the late 1990s, which saw countries in Southeast and East Asia suffered from the collapse of currency value and massive capital flight, provided the incentive for the making of the CMIM. The lack of regional cooperation at the outbreak of the crisis[45], compounded with the stigma from the IMF's mishandling of the rescue programs were the hard lessons that formed the need for a viable regional financial safety net that would serve the interest of member countries. While the rationale for a self-help mechanism was influenced by the crisis experience, the power structure underlying the global political economy shaped the nature of regional cooperation. The opposition from the IMF and the U.S. to the idea of an Asian Monetary Fund, proposed by Japan, gave an implicit signal that a feasible form of regional financial cooperation should continue to see the IMF play a

[41] In 2009 and 2010 the size of local currency bonds in East and Southeast Asia grew 16.2 and 13.6% respectively, reaching US$ 5.2 trillion in 2010, compared to US$ 0.5 trillion in the end of 1997. See Asian Development Bank, *ASEAN Bond Market Guide*, 2012, vii.

[42] For example, in terms of market size as a percentage to GDP, Malaysia ranked first among other ASEAN 5 (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) at 99% of GDP, followed by Singapore 71%, Thailand 76%, the Philippines 37%, and Indonesia 20% in 2010. The low level of private sector participation and low intra-regional investment are symptoms of bank-based financial system, which is a common characteristic for ASEAN countries, and the preference for investing in North American and European markets. For discussion on diversity within Asian bond markets and the numbers presented in this footnote, see Masahiro Kawai et al., *Asian Bond Market Development and Regional Financial Cooperation*, (Tokyo: The 21st Century Public Policy Institute, 2011), 15-17.

[43] http://www.ifrasia.com/first-adb-guarantee-on-the-cards/21026912.article

[44] Interview by author with a Thai official of the Ministry of Finance, Bangkok, June 2013. At the moment the CGIF offers a 1:1 guarantee but as a way to make a productive use of the fund, it may reconsider this ratio.

[45] Interview by author with Professor Djiwandono, Singapore, 12 June 2013. While there were swap arrangements among the ASEAN 5 in place at the time, unfortunately they were not utilized.

central role. The establishment of the CMI in 2000 that would focus on bilateral swap arrangements among the ASEAN+3 countries in order to 'supplement existing international facility' captured this common understanding.[46] Once the CMI set the development of the regional financial safety net in motion, seen in the constant increase in the size of the bilateral swap agreements and a plan to multilateralise the mechanism since 2005[47], the process was given an extra encouragement by the context of the global crisis of 2008/2009. While the ASEAN+3 policymakers were preparing for the multilateralisation of the CMIM before the crisis, it can be argued that the context of the global financial meltdown helped accelerate the development of the CMIM, which saw several changes made to the mechanism between 2007 and 2009, including the agreement to increase the reserve pool from US$80 billion to 120 billion, to establish an independent surveillance unit, and to raise the IMF-delinked portion from 10% to 20%.[48] The need to enhance the CMIM capacity and credibility was clear as some ASEAN+3 countries which experienced financial difficulties in 2008 chose to turn to the US Federal Reserve for assistance, instead of relying on the existing CMI arrangements.[49] This concern of the inefficacy of the CMIM continued to drive further adjustments to the facility, including the major ones made in 2012 to expand the size of the fund to US$240 billion and increase the IMF-delinked portion to 30% with the potential to reach 40% in the near future.

The development of the ABMI can also be understood from the above international political economy context. Lessons from the Asian crisis, particularly the damaging effects of currency and maturity mismatches derived from short-term foreign borrowing, underlined the need to change the region's financing and investment patterns to be more diversified, long-term oriented and less dependent on bank intermediation. The negative experience from the crisis that reflected the structural power of the U.S. and IMF, combined with the awareness of the region's own financial resources and potential also help explain the ABMI's 'regionalist' objective in promoting 'better utilization of Asian savings for Asian investment.[50] And quite similar to the CMIM, the global economic crisis of 2008 gave the ABMI a push in its momentum. The concern for financial vulnerability and desire to achieve 'sustainable economic growth in the region', expressed in the Joint Statement of the ASEAN+ 3 Finance Ministers' Meeting in 2008, can be linked to the drawing of the New Roadmap for the ABMI to set up priorities that would bring about concrete outcomes.[51] This impetus set in motion the creation of the CGIF in 2010 and the more streamlined New Roadmap+ in 2012.

While the context of international political economy helps explain the broad incentives that guided the trajectory of the CMIM and ABMI, the power relationship among member countries can play an important role in shaping the more specific characteristics of both mechanisms. Even though minutes of meetings and negotiations among ASEAN+3 officials are not publicly disclosed, the time lapse between the establishment of the CMIM in 2007 and its coming to effect in 2010 speaks volume about the difficulty in reaching a final conclusion on the CMIM Agreement. Chalongphob's mentioning of the politically sensitive negotiation related to members' voting power and my interviews with Thai officials from the Bank of Thailand and Ministry of Finance confirm the power relationship underlying the

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46 See Joint Statement of ASEAN+3 Finance Ministers' Meeting (AFMM) of 2000. Available at http://www.amro-asia.org/wp-content/uploads/2011/11/AFMM3_ChiangMai20000605.pdf

47 See Joint Statements from 2000 to 2005. Available at http://www.amro-asia.org/documents/

48 See Joint Statements of ASEAN+3 Finance Ministers' Meeting (AFMM) from 2007 to 2009. Available at http://www.amro-asia.org/documents/

49 South Korea and Singapore made swap arrangements with the US Federal Reserve worth US$ 30 billion, while the U.S.-Japan swap was set at unlimited amount. See Reserve Bank of Australia, Statement on Monetary Policy, November 2008, p. 23. http://www.rba.gov.au/publications/smp/boxes/2008/nov/b.pdf

50 See Chairman's Release on Asian Bond Market Initiative. http://www.amro-asia.org/wp-content/uploads/2011/11/AFMM3_Makati20030708_1.pdf

51 See AFMM Joint Statement of 2008.

CMIM negotiation.[52] Among the main contention is the notion of power-sharing between China and Japan, which also re-appeared in others negotiations, including the issue of the AMRO's leadership and CGIF contribution and Board of Directors. With regard to the CMIM voting weights, the attempt to keep a balance between the two economic powers is seen in the equal share both sides hold as a country, with a twist to keep Japan satisfied by giving 8.4% of China's total share to Hong Kong (Table 1).[53] In the case of AMRO, the China-Japan rivalry can be seen in the competition to assume the first directorship of the organisation. A compromise was reached by having a Chinese director for the first year, followed by a Japanese predecessor for another two years, which expires in 2013.[54] For the CGIF, China and Japan agreed to make the largest contribution to the fund equally (US$200 million), while each take over two seats at the 8-member board of directors. It can be argued that the attempt to maintain equal treatment and balance of power between the two largest players in the ASEAN+3 grouping manifests quite clearly in the CMIM and ABMI's institutional designs.

The nature of the CMIM should also be understood in the context of existing practices in global finance. The weighted voting system, which allocating voting power to members of an organisation based on the size of their financial contribution, is notoriously associated with the unequal distribution of power at the IMF and the World Bank, where the U.S. and many industrialised countries enjoy dominant voting shares. The CMIM's voting structure was created in an environment where there was growing dissatisfaction toward the IMF decision-making model on the one hand and a need to adopt the weighted voting system to recognize the financial contribution each member brings to the table. From the outcome, it can be seen that there was an attempt to avoid allowing one member to have a veto power, an incredible advantage the U.S. enjoys at the IMF. The consensus approach required for making decisions on fundamental issues and the two-third majority for operational issues will promote more consultation and dilute the power of the largest two members, i.e. China and Japan (whose combined voting shares are less than two-thirds).[55] While it cannot be denied that the CMIM's decision-making process continues to reflect the power hierarchy among member countries, this regional 'formula' seeks to avoid the concentration of power under the IMF model and adopts an arrangement that is believed to be more legitimate and acceptable to members. By taking into account the context of existing practices—here the weighted voting system and its politics—we can understand better the environment that shaped the perception of ASEAN+3 officials and policymakers and the choices available to them in their negotiation on the CMIM's voting structure.

There are also certain distinctive characters seen in the interaction among ASEAN and ASEAN+3 countries that can help us explain other aspects of the CMIM and ABMI (CGIF) and their development. Gradualism stands out in the way the mechanisms developed over time. The incremental change in the CMI and CMIM's size and IMF-delinked portion and the development of the AMRO from a very small office are good examples of the conservative and cautious inclination. Pragmatism is another strong trait in the 'ASEAN+3 way'.[56] The

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[52] See Chalongphob, 'Institution Building for Macroeconomic and Financial Cooperation in East Asia', 5.

[53] Interview by author with Dr. Kaewkamol Pitakdumrongkit, Singapore, 12 June 2013.

[54] It remains to be seen what selection procedures will be permanently adopted as the AMRO becomes an international organisation.

[55] See more details of the CMIM's decision-making process from the Key Points of CMI Multilateralization Agreement, posted on http://www.amro-asia.org/wp-content/uploads/2011/12/Key-Points-of-CMIM.pdf

[56] The term takes after the 'ASEAN way' which authors, such as Amitav Acharya, use to refer to the distinctive characters or identities shared among ASEAN policymakers in their interaction with one another or in dealing with ASEAN issues. For example, see Amitav Acharya, *Constructing a Security Community in Southeast Asia: ASEAN and the Problem of Regional Order*, 2nd ed. (New York: Routledge, 2009).

preference for practical matters demonstrated in the choice of keeping the CMIM as a reserve pool, instead of a centrally-managed fund, for it would be more acceptable among member countries to maintain control over their own contribution.[57] There was also a practical value in making the AMRO initially quite small and having a corporate status, particularly in terms of its budget, a cost that is shared among ASEAN+3, and the less intrusive nature of its surveillance operation, before transforming it into an international organisation.

In a number of my interviews, inclusiveness was cited as one of the most-valued ASEAN characters.[58] This ideal has recently come to the fore in the context of regional integration toward ASEAN community in 2015. Central to the establishment of the ASEAN Economic Community is the goal of inclusive and equitable growth, which is partly characterized by the narrowing of development gaps among and within member countries and more inclusive participation in the process of regional integration.[59] Having ASEAN as a focal point of the ASEAN+3 framework, these concerns understandably translated into ASEAN+3 shared preference. For instance, in both the CMIM and CGIF, where financial contribution is required, the concern for inclusive participation is expressed in the allowing for the smaller ASEAN economies to determine the amount of their contribution that suits their financial capacity before dividing the rest of the quotas among the larger members.[60] It can also be seen in the consensus approach in the decision-making process, which would require all views and interests, including those of small economies, to be taken into consideration. While one may argue that the preference for inclusiveness is rather a symbolic gesture than a substantive one, in the case of CMIM and CGIF where the disparity in financial capacity is quite apparent, creating an inclusive environment can help compensate for the power hierarchy which is a central feature of the weighted voting system.

Interestingly, as the CMIM evolves, a new behaviour pattern is emerging. As mentioned in the third section that as the CMIM became multilateralised, member countries have begun to assume ‘creditor’ mentality and became more vocal and engaged in discussion of other members’ economic conditions. It would be curious to see if this identity would drive future CMIM decision-making process more clearly and would spill over to other ASEAN or ASEAN+3 forums. It can be seen here that the making of the CMIM and CGIF has been shaped by these patterns of decision-making and interaction that are based on evolving common understanding, values, and identities of ASEAN and ASEAN+3 as a group. While it is not in the scope of this paper to delve into debates and criticisms on the implications of these loosely-labelled ‘regional characters’[61], it is important to acknowledge their role in guiding government officials and policymakers’ perception of what deems acceptable and appropriate for the all the states in the community.

[57] Interview by author with a Bank of Thailand official, Bangkok, February 2013.
[58] Interview by author with Professor Mely Caballero-Anthony, Singapore, 11 June 2013.
[59] See ASEAN Secretariat, ‘The ASEAN Framework for Equitable Economic Growth’, ASEAN Official Website. http://www.asean.org/news/item/the-asean-framework-for-equitable-economic-development. Accessed 11 August 2013.
[60] Interview by author with a Thai official of the Ministry of Finance, Bangkok, June 2013. The smaller economies are Brunei, Cambodia, Myanmar, Laos, and Vietnam. The larger ones are Indonesia, Malaysia, the Philippines, Singapore, and Thailand, or largely known as the ASEAN 5.
[61] A number of authors discuss the connection between certain regional identities or characters that emerged from years of interaction among ASEAN countries and the characteristics of regional cooperation, such as weak institutionalisation, non-interference, and lack of substantive outcomes. See Shaun Narine, *Explaining ASEAN: Regionalism in Southeast Asia*, (Boulder: Lynne Rienner, 2002). Amitav Acharya, *Constructing a Security Community in Southeast Asia*, (London: Routledge, 2001). Also John Ravenhill, 'Understanding the New East Asian Regionalism', *Review of International Political Economy*, 17, 2, (2010), 173-177.

As discussed in the theoretical framework section, while the various institutional factors mentioned above help us explain different aspects of the development of the CMIM and CGIF, they can also account for the competing objectives and priorities policymakers set out to achieve under both mechanisms and the following outcomes. For example, the design of the CMIM reflects the desire to create a regional self-help system that is more flexible and independent from the IMF-led global financial arrangement, on the one hand, and the intention to remain connected and being supplemental to the said global financial system, on the other. These competing objectives can only make sense when we take into account the context of the Asian financial crisis and the power structure of the global political economy. The ABMI, seen through the CGIF, also has multiple objectives, such as to reduce the dependence on external borrowing, to promote local-currency bond issuance and to raise the profile of local companies in regional bond markets. The question is how would these objectives fit with one another and with the overarching regional goal of inclusive and equitable development? The next section continues this discussion by examining the implications of the CMIM and AMBI (especially CGIF) on existing global governance and market structures and regional development goals.

The CMIM and ABMI (CGIF) and Regional Integration: An Early Assessment

Let us first examine the impact of the CMIM and ABMI (CGIF) on a broad picture of regional integration before assessing their implications on the existing global structure of financial safety nets and bond markets (or international dimension of integration) and the regional development goals (regional dimension) .

Institutionally speaking, the establishment of the CMIM and the AMRO helped lay down the rules and infrastructure necessary for a system of liquidity support for all members in times of economic difficulties. The multilateralisation of the CMIM in 2010 created a single contract that subjects each member to the CMIM Agreement and commits them to their financial obligation.[62] The signing and ratification of the Agreement by all ASEAN+3 governments put a legal seal on this process of integration. The institutions of this regional financial safety net, especially the AMRO will likely lead to more integration in the area of macroeconomic surveillance as members' cooperation is required in terms of data disclosure and, perhaps later on, standardisation. In a longer term, some observers see the role of the AMRO in promoting further macroeconomic and financial integration, particularly in exchange rate coordination, which could be through the establishment of a regional monetary unit.[63] While it is premature to speak firmly about these developments, it is likely that the institutional framework of the CMIM and AMRO and their positive feedback—for the CMIM would be the increased confidence in the mechanism's capacity and relative independence from the IMF and for the AMRO, its technical expertise in providing surveillance reports and other technical support for ASEAN+3 meetings—would provide incentives for policymakers to engage in more macroeconomic and financial cooperation.

[62] See Key Points of CMI Multilateralization Agreement. There is a clause that allows members to escape from their contribution to the swap arrangement with an approval from the Executive Level Decision Making Body, and to escape their obligation without such approval when faced with 'an extraordinary event or instance of force majors and domestic legal limitations'.
[63] See Pradumna Bickram Rana, Wai-Mun Chia, and Yothin Jintarak, 'Monetary Integration in ASEAN+3: A Perception Survey of Opinion Leaders', *RSIS Working Papers*, 228, (2011). According to their research results, Rana, Chia and Jintarak, 65% of the respondents believes that the CMIM and AMRO should transform into an institution similar to an Asian monetary fund and that 70% believes there is an urgent need to establish a regional monetary unit to be used in regional surveillance. See also Chalongphob, 'Institution Building for Macroeconomic and Financial Cooperation'.

The ABMI also helps set in motion a process of regional integration in bond market. Its major and most concrete projects to date, namely the CGIF, which we examine in this paper, the Asian Bond Online Website (ABW)[64], and ASEAN+3 Bond Market Forum (ABMF), put in place various institutional infrastructure that would help facilitate the growth of regional bond markets. As discussed in section three, the CGIF is a facility geared to encourage the issuance of corporate bonds in local currencies. By using ratings set by regional agencies as benchmarks, it also lends support to the credibility of regional credit rating system. The ABW serves as an online resource for bond market participants and observers for information related to the development of ASEAN+3 bond markets, while the ABMF acts as a forum to promote standardisation of market practices and harmonisation of regulations regarding cross-border transactions. Even though it is not in the scope of the paper to discuss the ABW and ABMF in detail, their mentioning here along with the CGIF helps us see a broader picture of some of the infrastructure installed to facilitate market integration. Given the early stage of all these mechanisms, it still remains to be seen how well they will fulfill their objectives.[65]

International Dimension: Complementarity and Competition

Let us now turn to the potential impact of the CMIM and ABMI on the existing global structure of financial safety net and bond markets. The main focus is to discuss whether the two mechanisms provide services and institutions that are complementary to or in competition with what the global system has to offer. The answer to this question has important implications on our understanding of global financial governance, particularly with regard to the relationship between different levels of financial arrangements in the context of globalisation and emerging multiple economic centers.

For the CMIM, despite the experience of the Asian crisis and the stigma from the IMF's role in crisis management, the intention behind the establishment of the CMI and later CMIM was to build a system of swap arrangements that is complementary to the existing global, IMF-led facilities.[66] The connection to the IMF system is clearly seen in the IMF-linked portion of the eligible swap quotas, which subjects members to IMF conditionality if they draw more than 30% of their eligible amount. This institutional design recognises the need to prevent moral hazard that would stem from too flexible lending, and the IMF's expertise in macroeconomic adjustment geared for countries that suffer more than liquidity crisis.[67] Besides the concerns for effectiveness, practical consideration about the CMIM's capacity is also central to the complementary relationship. Its total size, which amounts to US$ 240 billion, is considered small, compared to the potential threats posed by the global financial market.[68] Critics also point out scenarios that would problematise the CMIM's lending

[64] The ABW was launched in May 2004 to provide information about the bond markets in the region. See Joint Statement of ASEAN+3 Finance Ministers' Meeting of 2004. Available at http://www.amro-asia.org/documents/

[65] The ABMI's effectiveness is subject to much scrutiny and criticism. For example, Azis questions the contribution of the ABMI to the recent overall improvement in regional bond market, arguing that such development could have happened with or without the ABMI. See Iwan J. Azis, 'Inadequate Regional Financial Safety Nets Reflect Complacency', *ADB Working Paper Series*, 411(2013), 6.

[66] See Joint Statement of ASEAN+3 Finance Ministers' Meeting of 2000. Available at http://www.amro-asia.org/documents/

[67] According to my interview with an AMRO official, the need to prevent moral hazard was commonly held by 'creditor' countries of the ASEAN+3, namely China, Japan, and South Korea. There is also an open recognition for IMF-modelled conditionality as seen in Siregar and Akkharaphol's recommendations for the CMIM's lending conditions. See Siregar and Akkharaphol, 'Enhancing the Effectiveness of CMIM and AMRO', 14.

[68] For discussion on the limitations in regional financial safety nets' capacity see for example, Barry Eichengreen, 'Regional Funds: Paper Tigers or Tigers with Teeth?', in Ulrich Volz and Aldo Caliari (eds.), *Regional and Global Liquidity Arrangements*, (Bonn: German Development Institute, 2010).

capacity, such as the strains on smaller countries' financial capacity when they have to commit to more than one swap requests.[69] Furthermore, while the AMRO has the potential to increase its surveillance capacity in the future, currently it is dependent on cooperation from international financial institutions, such as the IMF, ADB, World Bank, and OECD for its research and surveillance works.[70] From the IMF perspective, due to the rise of regional financial arrangements in the past decade, the institution, which used to oppose to the establishment of the Asian Monetary Fund in the late 1990s, now acknowledged the importance in working together with these regional mechanisms to create a multi-layered global financial safety net.[71] In line with this idea, the IMF organized a high-level meeting during its 2010 Annual Meeting with representatives of regional financial arrangements, including the CMIM, to discuss possibilities for lending synergies and cooperation.[72] To date, formal arrangements for lending coordination have yet to materialise. But we cannot deny the growing support for a multi-layered global financial safety net, which seeks to combine resources, expertise, and comparative advantage of the different levels of such arrangements, while acknowledging their own limitations. The collaboration between the IMF, the European Central Bank, and The European Financial Stability Facility (EFSF), which has become The European Stability Mechanism (ESM), in handling Europe's fiscal crises, is an example of what could be done in terms of pooling resources and expertise.[73] However for the CMIM, and perhaps other regional arrangements in the developing world, there is no guarantee that such interplay with the IMF would take the form that suits their needs and interests, given the history of IMF domination in crisis situation. While we acknowledge the complementarity of the CMIM to the global system, the challenge lies in forming a formal arrangement with the IMF that would be acceptable to ASEAN+3 members as well as serve regional interests.

For the ABMI, the goal to reduce the dependence on foreign bank borrowing, which was a major cause of the currency and maturity mismatches during the Asian financial crisis, was central to the establishment of the mechanism. The need to develop regional bond markets as *alternative* channels for investment and financing led the ASEAN+3 governments to pursue broad-ranging strategies to overcome existing problems and obstacles in the regional markets, particularly the ones we discussed in section three, namely low and undiversified market participation, low liquidity, and lack of interest among the private sector.[74] By 2008, a mixed picture emerged. On the one hand, a significant growth in local-currency bonds in many ASEAN+3 countries have led the Asian Development Bank to proclaim that they have become an important asset class to global investors. [75] This perception was supported by a general increase in foreign holding of local-currency bonds and a rise in overall Asian bond outstanding during the global financial crisis, reflecting the role regional markets served as an investment safe haven.[76] On the other hand, regional bond markets have not yet functioned as serious borrowing alternatives for the private sector in the region, or investment channels for regional investors. That corporate bonds continue to lag behind government bonds in total market shares not only reflects the ongoing structural imbalance in the regional bond markets but also the region's long-standing reliance on bank intermediaries. The low level of cross-border transactions also confirms both the preference of regional investors for North American and European financial markets and the existing

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[69] See Jose Antonio Ocampo, 'The case for and experiences of regional monetary co-operation' in Ulrich Volz and Aldo Caliari (eds), *Regional and Global Liquidity Arrangements*, 2010.
[70] See Siregar and Akkharaphol, 'Enhancing the Effectiveness of CMIM and AMRO', 21.
[71] See Aldo Caliari and Ulrich Volz, "Introduction," in *Regional and Global Liquidity Arrangements*.
[72] Seminar on regional financial safety nets, 8 October; online: http://www.imf.org/external/np/seminars/eng/2010/spr/index.htm, cited in Caliari and Volz, 2010.
[73] Interview with Professor Pradumna B. Rana, Singapore, 12 June 2013.
[74] See the Chairman's Press Release on the Asian Bond Markets Initiative, in Joint Statement of ASEAN+3 Finance Ministers' Meeting in 2003.
[75] See Asian Development Bank, *Asian Bond Market Guide*, vii.
[76] Ibid. See also Kawai, *Asian Bond Market Development and Regional Financial Cooperation*, 15.

impediments toward intra-regional bond activities. The return of the double mismatch problems during the global financial crisis for a number of countries in the region, even though not as serious as the Asian crisis, reminded ASEAN+3 policymakers of their continued vulnerabilities brought about by the reliance on bank-led external borrowing.[77] The establishment of the CGIF in 2010, under the ABMI New Roadmap, therefore, is part of the attempt to remedy these weaknesses and to make regional bond markets become meaningful 'regional' alternative for investment and financing needs. Given the early stage of CGIF operation and the ongoing development of the ABMI, future research is required to see if these regionalist objectives are fulfilled and whether more balanced and diversified patterns of investment and borrowing in the region is emerging.

Regional/Domestic Dimension: Equitable Economic Development and Financial Inclusion

Being part of the infrastructure of an emerging financial community, it is important to think about how the CMIM and ABMI (CGIF) would measure up against some of the region's economic objectives and global development norm, namely equitable economic development and financial inclusion. As mentioned in the previous section, the concept of 'equitable economic development' is adopted by ASEAN as a framework to guide the region's transformation to an economic community. The term encompasses 'the narrowing developing gaps within and between Member States, better access to opportunities for human development, social welfare and justice, and more inclusive participation in the process of ASEAN integration and community building'.[78] It also refers to economic growth that is inclusive both within and between countries. Financial inclusion, which the G20 adopted as one of its development agenda in 2009, underlines the importance of financial access to the improvement of the poor's livelihood and to the economic viability of small and medium-sized enterprises (SMEs), which are key drivers of an economy.[79] Even though it is not explicitly endorsed by the ASEAN or ASEAN+3, the idea of inclusiveness fits very well with the concepts of equitable development and inclusive growth. Given the early stage of the CMIM and CGIF, our discussion will focus on the institutions or mechanisms being put in place and whether their objectives are compatible with the said development goals.

The CMIM's potential role in providing financial safety nets to all member states would help maintain the region's financial stability, which is an essential condition for equitable economic development. The importance of such financial arrangements to smaller economies in the group should not be undermined as these countries would have less resources and opportunities to set up their own defense mechanisms against financial crises compared to larger economies. While not being oblivious to the power hierarchy, the mechanism's consensus decision-making also corresponds well with the concept of equity and inclusiveness, and therefore can be seen as a source of the CMIM's legitimacy. As discussed in section three, the main challenge lies in making the CMIM a serious alternative for crisis prevention and resolution for all country members, which would require, among other things, a significant increase in its financial capacity and an arrangement with the IMF for the pooling of resources with acceptable conditions.

[77] See Victor Pontines and Reza Y. Siregar, 'How Should We Bank With Foreigners?—An Empirical Assessment of Lending Behavior of International Banks to Six East Asian Economies', *ADB Working Paper Series*, 386, (October 2012), 5. According to the authors, in 2010 the lending from the EU, US, and Japan to the ASEAN 5 and South Korea ranged from less than 10% to 75% of their GDP (Indonesia 6%, the Philippines 9%, Thailand 15%, South Korea 25%, and Singapore 75%).
[78] See ASEAN Secretariat, 'The ASEAN Framework for Equitable Economic Growth', ASEAN Official Website. http://www.asean.org/news/item/the-asean-framework-for-equitable-economic-development. Accessed 11 August 2013.
[79] See G20 Financial Inclusion Action Plan, Global Partnership for Financial Inclusion. http://www.gpfi.org/our-work/work-plans/g20-financial-inclusion-action-plan. Accessed 10 August 2010.

The ABMI and CGIF, with their goals to promote regional bond markets (and for the CGIF corporate bond markets more specifically) in order to diversify investment and financing opportunities for member countries, also have the potential to contribute positively to equitable economic development and financial inclusion. However, given the differences in the level of development of member countries' bond markets, the issue of distribution of benefits will eventually emerge. For example, with the absence of viable bond markets and the lack of capacity to issue bonds, it is not clear how Cambodia, Laos, and Myanmar would benefit from the CGIF, which aimed to help local companies issue corporate bonds in other ASEAN+3 markets. We can see from past experience that the candidates for the CGIF guarantees were among the largest companies in the region and the targeted markets for bond issuance have all been those of the ASEAN 5.[80] Recent development sends a positive message about the prospect of the smaller ASEAN economies' bond issuance. In June, 2013, the Laos government launched its first bonds, totalling US$ 50 million (or baht 1.5 billion) in the Thai baht bond market.[81] This issuance was supported by the Thai government, which waived the required rating for the sovereign issuer. It would be good if these arrangements could extend to other governments, such as Cambodia, Myanmar, and Vietnam so that they could tap into regional bond markets to reduce their reliance on foreign aid or diversify their external borrowing. But for the private sector, unless extra assistance is provided, it would take some time for them to be integrated into regional financial markets. With regard to financial inclusion, particularly with respect to financial access of the poor and SMEs, the ABMI's New Roadmap+, launched in 2012, has the potential to contribute directly to this development goal through its Task Force 3.[82] As an added issue to this task force that aims to improve regulatory framework, it is a positive signal that there is an attempt to enhance local SMEs and consumers' access to regional bond markets in order to expand their financial and investment opportunities. But from my interview with a Thai official, regional cooperation in this area has not been very active, compared to the attention and financial resources given to the CGIF, which as mentioned earlier tends to favor large companies that already have the capacity to operate at the regional and international level.[83] Instead, the objective of promoting financial access to SMEs and consumers was left to national discretion, which could run the risk of being delayed and fragmented. So far there has yet any substantial report on the progress in this category.

We end this section by discussing a few recommendations for the CMIM and ABMI. The recommendations for the former are drawn from an institutionalist perspective and focus on the issues of credibility, legitimacy, and institutional arrangements. For the latter, the recommendations concentrate on the issues of distribution of benefits and inclusive access to financial resources.

The first recommendation is concerned with its capacity. Given the unexpected scope and size of financial crises, this paper endorsed the view of the multi-layered financial safety net as discussed by Professor Rana.[84] As a regional mechanism, it is important for the CMIM to continue to improve on its financial capacity and conditions to make the mechanism credible and legitimate in the eye of member countries. To do so, the paper finds the recommendations provided by Siregar and Akkharaphol on the coordination between bilateral and multilateral swap arrangements particularly sound. By allowing the CMIM manage members' bilateral swap agreements along with the multilateral ones, a recipient

[80] So far the reported deals have been the Thai Union Frozen case, which did not go through, and the Noble Group case, which succeeded in completing the deal. The targeted markets were Singapore and Thailand, respectively.

[81] IFRasia, *Laos Makes International Debut*, 1 June 2013.

[82] See Joint Statement of ASEAN+3 Finance Ministers and Central Bank Governors' Meeting of 2012.

[83] Interview by author with a Thai official at the Ministry of Finance, Bangkok, June 2013.

[84] See Pradumna Bickram Rana, 'The Evolving Multi-layered Global Financial Safety Net: Role of Asia', *RSIS Working Paper Series*, 238 (2012).

country would have access to both funds in an organised manner, while the creditors would rest assured that the recipient has gone through the process of surveillance and CMIM approval.[85] However, the CMIM should also seeks to establish a formal arrangement with the IMF to make sure that when there is a need for crisis prevention or resolution, financial resources can be available in a timely manner. But it is also important to create an IMF-CMIM arrangement that all members can be comfortable with, given some countries' bad experiences with the global organisation. The credibility of ASEAN+3 as a group and the change in the IMF's perception about its role and conditionality in the past few years should be positive contributing factors toward an arrangement that is effective and acceptable by all.

Another recommendation for the CMIM is about the AMRO. As the CMIM's surveillance body, the AMRO needs to be seen as an independent and credible organisation. Making it an international organisation is a good start. But for the AMRO to be seen as credible, its works need to be better known to the public. While trying to keep the surveillance report confidential in order to facilitate more open discussion among country officials, the AMRO needs to consider how to make its reports and operations known to the public to establish credibility and legitimacy based on technical expertise. This reputation will also help in its dealing with other international organisations such as the IMF, ADB, World Bank, among others. What the AMRO should avoid is to be seen in the shadow of ASEAN+3 and caught up in the group's power rivalry. One way to establish more independence is to have AMRO's top leader (its Director) coming from a merit-based selection process, as opposed to allowing the position to reflect a political compromise among key members. It is crucial for the AMRO to continue to build its organisational capacity, particularly human resources to support its demanding and potentially increasing roles in the future. However, as an international organisation central to the emerging East Asian regional financial community, the AMRO should begin to see its role beyond technical requirements or necessity. Adopting certain ideals that represent the aspiration of this financial community, such as equitable economic development and financial inclusion would help shape the AMRO's organisational values, which would in turn form its institutional identity in the long run.

Our recommendations to the ABMI concentrate on the issue of distribution of benefits and financial inclusion. As our discussion above demonstrates, unexpected and conflicting outcomes can arise from a pursuit of multi-pronged strategies. Unless the issues of distribution of benefits and financial inclusion are systematically incorporated in the design of ABMI projects, there is a possibility that some of these programs and mechanisms would end up widening the economic divide among the ASEAN economies. Therefore, it is imperative for policymakers and officials to be very sensitive as to how benefits from the ABMI will be distributed and whether access to ABMI's financial opportunities are inclusive. We offer two recommendations for the ABMI out of this general concern. First, while the New Roadmap+ was on the right track with regard to the promotion of financial inclusion when it seeks to enhance financial access to consumers and SMEs, it is inadvisable to leave the matter to national discretion as it could run the risk of being delayed and haphazardly implemented. Our recommendation sees member governments play an important and concerted role in adopting a regional plan that gives the goal a pressing priority while leaving room for domestic configuration. One way to pursue this goal and make use of existing infrastructure is for the CGIF to allot a certain amount of funds particularly to SMEs and use its organisational resources to screen suitable candidates. With the added objectives and responsibilities, member states and the ADB would have a justified cause to inject more money into the CGIF. In the future, existing models, such as the one at work at Germany's Stuttgart Boerse (stock exchange), can also provide ideas for policymakers in designing promotional measures for SMEs bond issuance in regional markets.[86] The second

[85] See Siregar and Akkharphol, 'Enhancing the Effectiveness of CMIM and AMRO', 10.

[86] At the Stuttgart Stock Exchange, a special bond platform for SMEs has been created recently to help them gain access to credit when bank-based financing has been severely contracted due to the

recommendation is in the area of development financing. The experience of the Lao government's launching its first sovereign bonds in the Thai market with the help from the Thai counterpart in waiving the required credit rating should be extended to other smaller economies, particularly Cambodia, Myanmar, and Vietnam. The Lao case has shown that this kind of cooperation can be a win-win situation which sees the Lao government gained exposure in an international capital market and Thai investors enjoyed an opportunity to diversify their bond portfolio. The fact that the Lao government is preparing to issue a second round of Thai-denominated sovereign bonds worth 3 billion baht (approximately $100 million USD) in the near future to finance its development projects bodes well for the kind of assistance rendered to Laos to jump start its regional exposure.[87] By providing the same opportunity to other smaller ASEAN economies to fund their development projects through sovereign bond issuance, they too will benefit from what the growing regional markets have to offer.

Conclusion

This paper draws from an institutionalist perspective to explain the changing regional financial landscape brought about by the CMIM and ABMI and to evaluate the impact of the two mechanisms on regional integration. It argues that the CMIM and ABMI (particularly the CGIF) were designed to change the rules of the game with regard to regional financial safety net and bond markets to better serve regional and individual members' interests. At their early stage, they are not without challenges, including the issues of capacity and credibility for the CMIM and structural imbalances and distribution of benefits for the ABMI (CGIF). To understand the making and development of both mechanisms, the paper examines four contributing factors, namely the context of global political economy, power relationship among members, existing practices in global finance, and regional norms and identities. While the context of global political economy provided the incentives for regional cooperation, other factors helped shape specific characteristics of the CMIM and AMBI, including the distribution of power among members, nature of decision-making process, pace of negotiation and preference for inclusiveness. With regard to the implications of the CMIM and ABMI on regional integration, they both contribute positively to the integration process where members are bound by the multilateral swap arrangements and gradually moving toward convergence in bond markets. To the question on whether it is complementary or competitive, the paper argues that the CMIM is designed to complement the IMF-led global financial liquidity support, even though a formal arrangement with the international institution has yet to be established. The ABMI, on the other hand, seeks to promote regional bond markets as alternative channels of investment and financing to foreign bank borrowing. Finally, when measured against ASEAN's goal of equitable and inclusive development, the results are mixed. While both the CMIM and ABMI have laid down some infrastructure and decision-making procedures that are compatible with this objective, the differences in member countries' level of development and financial capacity, the pursuit of multiple objectives and the lack of substantive discussion on within-country inequality can be major obstacles toward equitable and inclusive growth. The paper ends with a few recommendations for both the CMIM and ABMI that include an improvement on CMIM's financial capacity, AMRO's credibility and ABMI's sensitivity to the issues of distribution of benefits and financial inclusion.

ongoing crises in the Eurozone. See http://knowledge.insead.edu/business-finance/bond-markets-look-to-smes-2409. Accessed 20 November 2013.

[87] http://www.asianewsnet.net/Thai-baht-bonds-to-close-Lao-budget-gaps-53808.html. Accessed 20 November 2013.

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