

Will the European experience help to establish a better regional financial safety net in East Asia?

Hee-Yul Chai

Department of Economics, Kyonggi University

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3. Regional financial safety net in the European Union

- A brief history
- Assessment

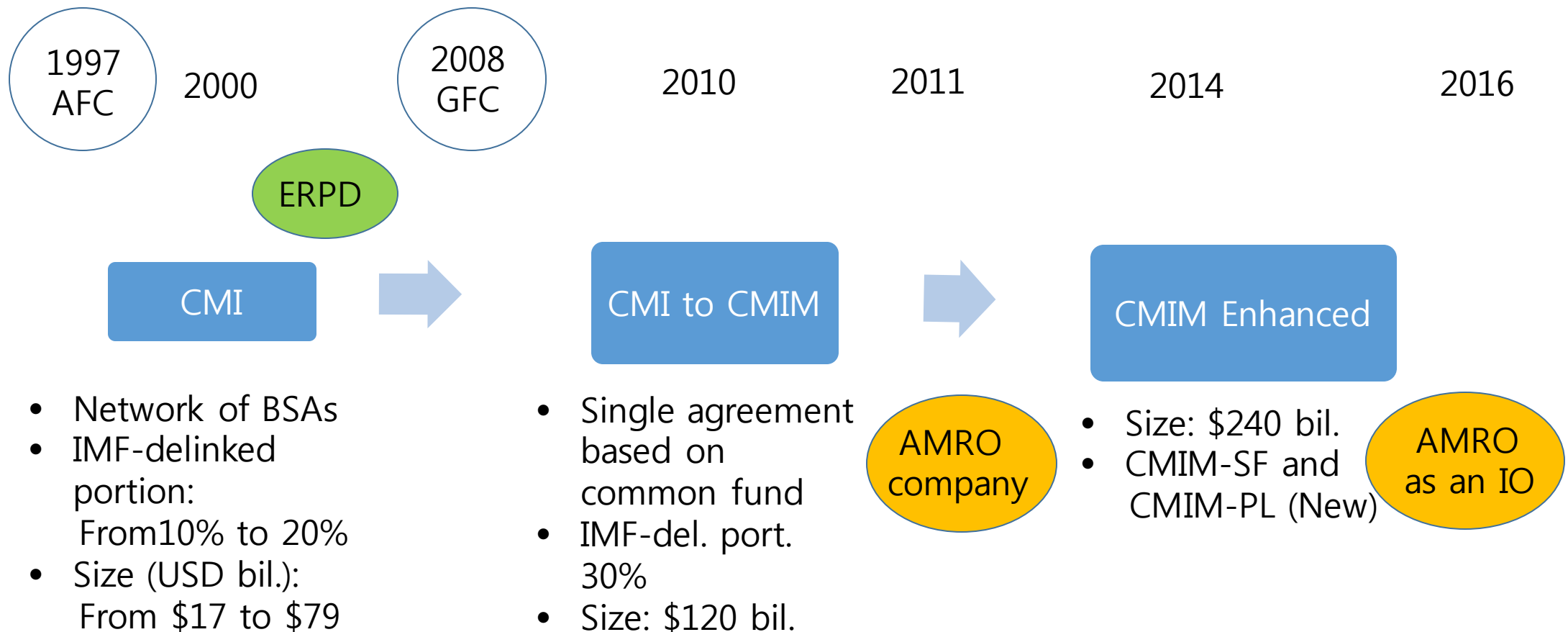
4. Lessons of the European experience for East Asia

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Motivation and Objective

- Since the breakout of the Asian financial crisis, many efforts have been deployed to introduce regional financial cooperation arrangements in East Asia.
 - CMI, CMIM, AMRO, ERPD
 - Nevertheless, there is not yet a credible crisis prevention and resolution mechanism in the region.
 - During GFC, no role for CMI
 - In the European Union, a very weak regional financial safety net just after the breakout of the GFC and sovereign debt crisis.
 - But Europeans introduced new regional arrangements and improved existing arrangements with more or less success in helping countries in financial distress.
- 👉 Draw lessons from the European experience for East Asia
- How to improve existing regional arrangements and introduce new regional arrangements
 - How to manage the cooperation between regional institutions and the IMF
- Discuss possible cooperation between East Asia and Europe

Regional financial safety net in East Asia – History



Regional financial safety net in East Asia - CMIM

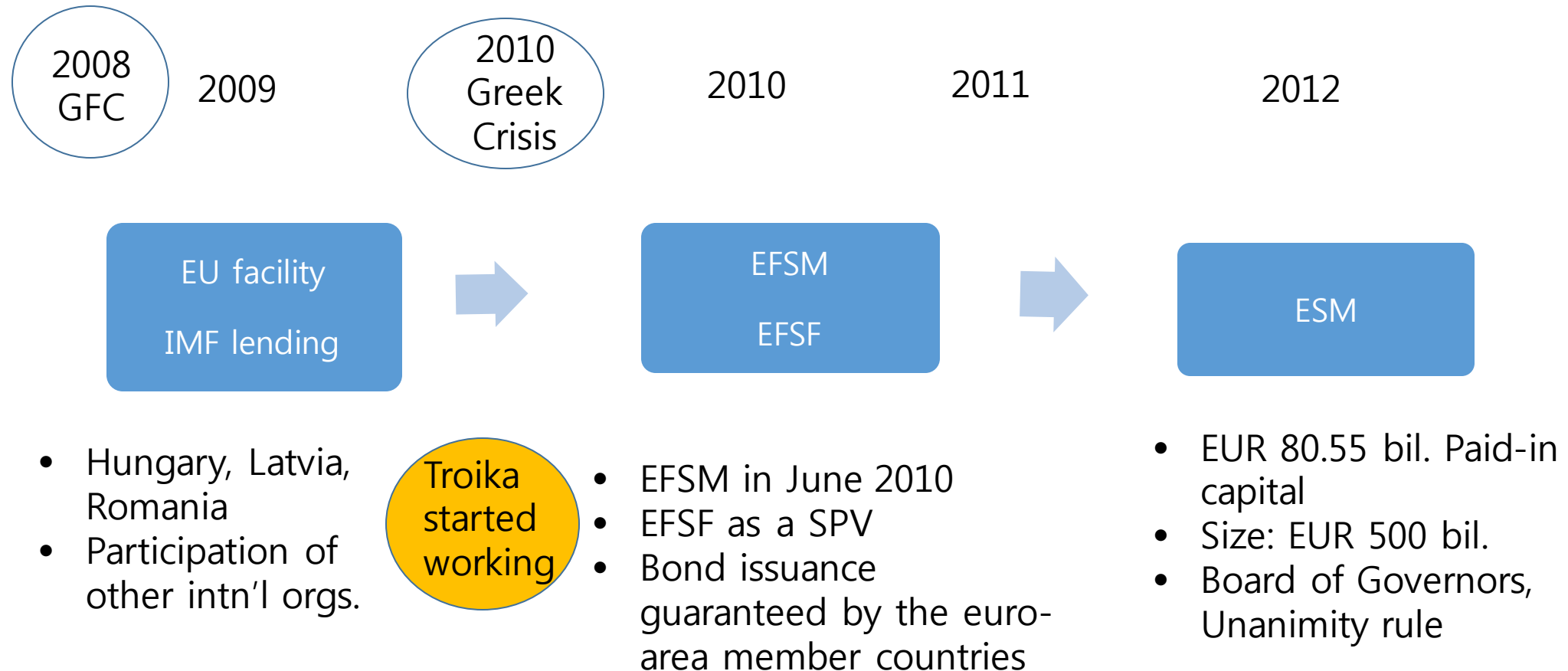
Countries		Financial Contribution (Billion USD)		Share (%)		Purchasing Multiple	Maximum Swap Amount	Basic Votes	Votes based on contribution	Total Voting Power	
											%
Plus Three		192.00		80.00			117.30	9.60	192.00	201.60	71.59
Japan		76.80		32.00		0.5	38.40	3.20	76.80	80.00	28.41
China	China (Excluding HK)	76.80	68.40	32.00	28.50	0.5	34.20	3.20	68.40	71.60	25.43
	Hong Kong China		8.40		3.50	2.5	6.30	0.00	8.40	8.40	2.98
Korea		38.40		16.00		1	38.40	3.20	38.40	41.60	14.77
ASEAN		48.00		20.00			126.20	32.00	48.00	80.00	28.41
Indonesia		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Thailand		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Malaysia		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Singapore		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Philippines		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Vietnam		2.00		0.833		5	10.00	3.20	2.00	5.20	1.847
Cambodia		0.24		0.100		5	1.20	3.20	0.24	3.44	1.222
Myanmar		0.12		0.050		5	0.60	3.20	0.12	3.32	1.179
Brunei		0.06		0.025		5	0.30	3.20	0.06	3.26	1.158
Lao PDR		0.06		0.025		5	0.30	3.20	0.06	3.26	1.158
Total		240.00		100.00			243.50	41.60	240.00	281.60	100.00

Regional financial safety net in East Asia – Assessment

- Low Predictability
 - Fund based on pledged funding, possible opt-out
- Too small size
 - Maximum swap amount: One tenth of FX reserves for Korea
 - Maximum swap amount to GDP ratios in 2016 are 0.34%, 0.78%, 2.72%, 2.4% respectively for China, Japan, Korea, and Indonesia
- High IMF-linked portion
 - delayed and insufficient assistance
- Weak surveillance

Despite these problems, it might be dangerous to amend one of the drawbacks of the CMIM with the other problems remaining the same.

Regional financial safety net in Europe – History

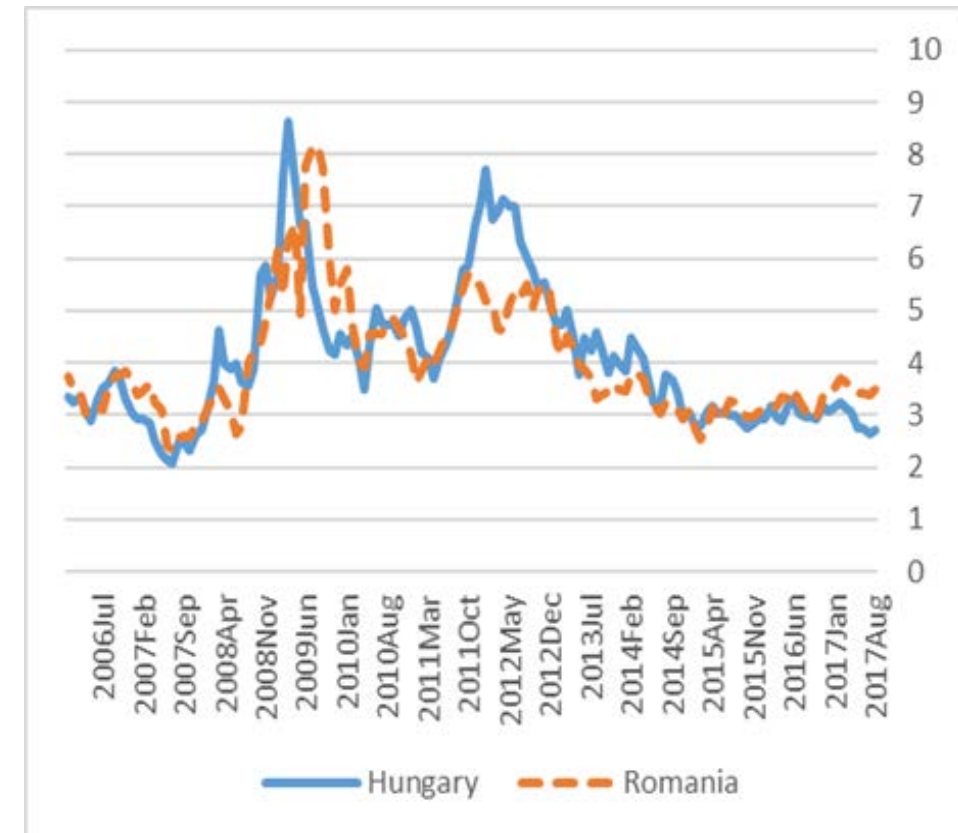
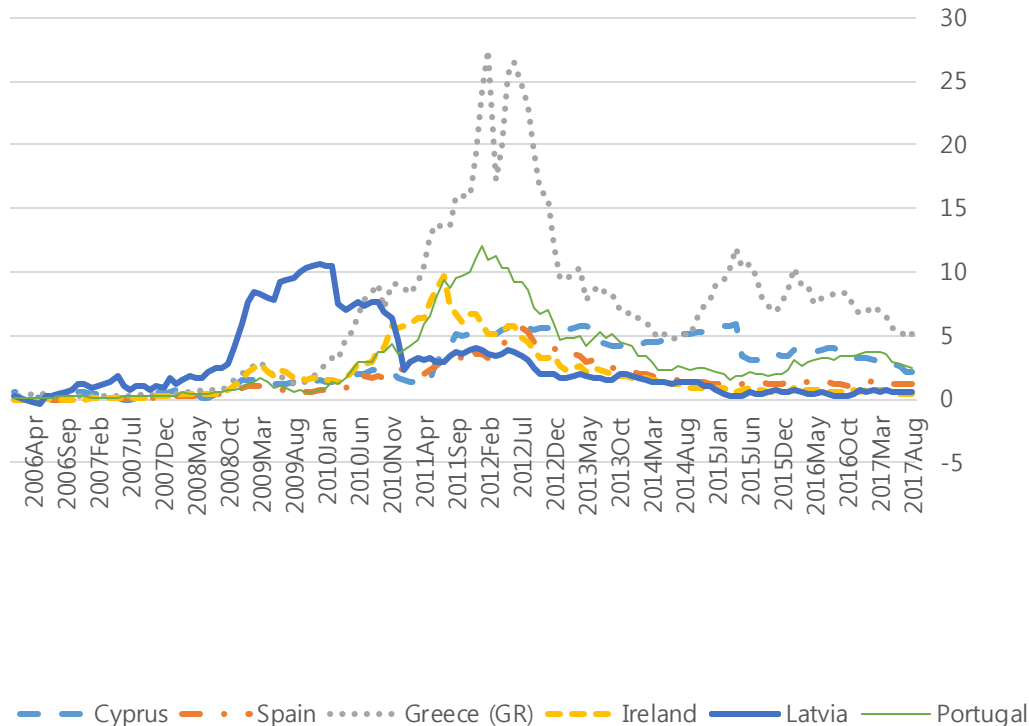


Regional financial safety net in Europe – Troika

- The Commission, the ECB and the IMF cooperated in designing, monitoring and financing of the assistance programs.
- The Troika structure is an unprecedented one.
 - The IMF is not accustomed to decide the size and terms of its lending based on the discussion with regional institutions.
- The Troika is not an organization responsible for deciding financial assistance to euro-area countries.
 - The Eurogroup and the IMF are responsible for the decision.
 - The European Commission in liaison with the ECB assists the Eurogroup in taking its decision through preparing the assessment report and conducting negotiations.
 - After the introduction of the ESM, the European decision-making institution became its Board of Governors.

Regional financial safety net in Europe – Assessment (1)

- Success in introducing financial assistance arrangements with relative ease and speed
- Thanks to the financial assistance programs, seven out of the eight countries which had received financial assistance in the EU could be able to return to market financing



Regional financial safety net in Europe – Assessment (2)

<Success factors>

- Adequate size of assistance
 - Above 40% of GDP (Spain 10%)
 - The arrangements (EFSM, EFSF, ESM) could raise enough money tanks to joint guarantee of member states.
- The working of Troika largely successful
 - Equilibrium between debt sustainability and prevention of spillover effects

<Drawbacks>

- Decision making based on unanimity of ESM
 - > Evolution towards EMF?
- IMF's preferential treatment of European countries
- Absence of formal mechanism for the resolution of disagreements within Troika

Regional financial safety net in Europe – Assessment (3)

<IMF and regional institutions: Troika>

- What was the main role of the IMF in the financial assistance?
 - The portion of IMF lending: 20~30%
 - Technical assistance: yes but
 - Creditor's unwillingness to rely entirely on European Commission (Henning 2017)
- Resolution of disagreement within Troika
 - Examples of disagreement: Greek debt restructuring, haircut to senior bondholders of Irish banks
 - No formal mechanism for dispute resolution
 - Resolution results not always convincing
 - However, the Troika has succeeded in resolving disputes through dialogue and political compromise: role of cultural homogeneity between policy makers within the Troika

Lessons of European experience for East Asia

1) Predictability of activation

- To transform the CMIM into a legal entity with paid-in capital like the ESM
- Paid-in-capital a little larger than the actual size of CMIM

2) Fund size

- To increase the fund size through issuance of bond
- Co-guarantee of member states

3) Monitoring and surveillance

- To increase budget and personnel of AMRO and collaborate closely with existing international institutions

4) Relationship with the IMF in financial assistance program

- Danger of increasing the IMF-delinked portion too fast without adequate macroeconomic surveillance capacity in East Asia.
- Involvement of IMF needed not only to exploit IMF's competence but also to minimize the risk of introducing inadequate conditionality.
- Need to introduce explicitly the code of conduct which should be respected by both ASEAN+3 institutions and the IMF when the IMF is involved in the provision of financial assistance in the region

Possible cooperation between FSNs

- The first type of cooperation is about technical issues between the CMIM/AMRO and the ESM
 - surveillance method, lending toolkit, internal management etc.
- Development onto closer cooperation requires the institutional reforms of Asian arrangement.
 - cross-shareholding between CMIM and ESM
 - cooperate in the issuance of bonds respectively in the partner's region
 - bilateral lending program to increase the size of funding capabilities



Contribution to global financial stability

Thank you!