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Searching for a Better Regional Surveillance Mechanism in East Asia[+]

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Executive Summary

Since the East Asian financial crisis, the need for regional financial cooperation has been greatly emphasized. With integrated markets, financial instability is unlikely to remain within national borders. Indeed, cooperative efforts at both regional and global levels are needed to counter the negative spillovers. In particular, the increased regional economic interaction through both financial and trade channels affords a basis for higher financial cooperation.

The most important precondition for successful regional financial cooperation is the institutionalization of a monitoring and surveillance mechanism. Monitoring enables the countries in the region to share necessary information, while surveillance ensures the countries comply with agreements. Proper monitoring is a prerequisite for successful surveillance and a part of it.

Currently in East Asia, only shallow forms of financial cooperation are being forged. Under the ASEAN+3 framework, progress has only been made in implementing the Chiang Mai Initiative (CMI). Bilateral swap arrangements under the CMI need to be more structured and institutionalized. In particular, policy dialogue, along with a regular monitoring and surveillance process, forms an essential pillar of financial cooperation. This paper aims to critically review the existing surveillance mechanisms for financial cooperation and to seek measures to strengthen surveillance processes through regional policy dialogue.

Surveillance mechanisms must vary with the grade of financial cooperation, because a surveillance mechanism should fulfill particular objectives. A regular monitoring process is essential for the prevention of crises. The collected information will help detect and identify the characteristics of economic and financial vulnerabilities at an early stage so that a proper menu of policy actions can be taken in a timely manner. Through economic and financial sector monitoring, a close watch should be kept on macroeconomic trends and policy changes, financial market developments including cross-border capital flows, and institutional and legal changes. An early warning system (EWS) based on this information and processed indicators can diagnose early symptoms of crises. However, an early warning system cannot function properly when there is no reliable data.

Data provided from monitoring should make it possible to judge whether member countries in the group comply with agreements or not. The effectiveness of surveillance relies on the existence of enforcement mechanisms for ensuring the members abide by the agreements. Peer pressure is one of the enforcement mechanisms widely used in

international cooperation.

The European experience from the European Payment Union in 1950 to the European Monetary Union in 1999 shows that monitoring and surveillance mechanisms have evolved along with changing objectives through various periods and stages. The main implications that can be drawn from the European experiences are the following: First, clearly specified objectives enable effective surveillance. Second, member countries must nominate authorities to be responsible for surveillance. Third, a regional body should have its own surveillance authority. Fourth, the surveillance mechanism should develop along with the degree of regional integration. Fifth, administrative cooperation is an obligation of member states.

At present, the East Asian countries broadly share a sense of financial cooperation. To complement the CMI, the ASEAN+3 policy dialogue group feels it critical for the region to enhance the policy dialogue process. Although regional surveillance initiatives provide a potentially meaningful and substantive value-added contribution to existing multilateral and other mechanisms, East Asian countries do not yet have other specified common policy objectives. Crisis prevention alone is rather ambiguous as a policy objective for surveillance. Surveillance mechanisms should come along with other pillars of monetary and financial cooperation. As the CMI further develops and other initiatives such as exchange rate coordination emerge, the objectives of concomitant surveillance mechanisms will be more clearly spelled out. The policy dialogue process through peer review will be a good starting point, but it would not operate in vacuum. The next main issues are to identify the appropriate modalities and design the necessary instruments, techniques, and institutions.

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The attraction of group membership is not so much in sheer belonging, but rather in attaining something by means of this membership (Festinger 1953, p. 93).

I. Introduction

Since the East Asian financial crisis, various proposals have been put forward for financial cooperation in East Asia to better prevent and manage future financial crises and to enhance economic efficiency by developing sound financial markets. However, it is necessary to refine the definition of "financial cooperation or financial arrangement," a concept which is currently understood rather broadly, in order to implement a sense of commonality into a concrete scheme. A shallow form of financial cooperation may comprise no more than a common international reserve pooling or mutual credit arrangement such as bilateral swaps. In other words, some kinds of shallow financial cooperation are conceivable without any commitment to exchange rate arrangement under which exchange rates of the participating countries are pegged to each other. East Asian countries presently appear to pursue this line of financial cooperation; but this limited financial cooperation can serve several important purposes in the absence of monetary cooperation (Henning, 2001).

In this paper, existing multilateral and regional surveillance mechanisms are critically reviewed. In particular, in relation to the current development of the Chiang Mai Initiative (CMI), our analysis will focus on how to strengthen mutual surveillance processes through regional policy dialogue. As the degree of financial cooperation changes, mechanisms and institutions will evolve along with the other pillars of financial cooperation–liquidity assistance mechanisms and exchange rate coordination. Under the ASEAN+3 framework, progress has only been made in implementing the CMI. A discussion has just recently started to explore a relevant policy dialogue mechanism to support the operation of the CMI. Different institutional settings will require different mechanisms for effective monitoring and surveillance. In this regard, the European experience will provide a useful benchmark for future developments of financial cooperation in East Asia.

Policy dialogue, along with a regular monitoring and surveillance process, is essential for the prevention of crises. The collected information will help detect and identify the characteristics of the looming crisis at the early stage so that proper remedial actions can be taken in a timely manner. Furthermore, a joint exercise based on a region-wide early warning system will facilitate closer examination of financial vulnerabilities in the region. In addition, the regional policy dialogue process will contribute to ensuring effective implementation of collective policy targets through peer pressure or rule-based enforcement mechanisms. Many issues involved in developing a regional policy dialogue framework will be thoroughly examined.

This paper begins with a discussion of the conceptual framework for surveillance and monitoring. It briefly considers the rationale for regional surveillance and monitoring, various forms of regional financial cooperation and their relation to surveillance and monitoring, early warning systems and the mechanism of peer pressure. Section 3 reviews European experiences and institutions for surveillance and monitoring and then draws lessons from these experiences. Section 4 compares the IMF's global surveillance and regional initiatives. Finally, section 5 considers future challenges for constructing a better regional surveillance mechanism in East Asia.

II. Conceptual Framework

1. The Rationale for Surveillance and Monitoring

The Asian crisis and historical experience have demonstrated that the growing interdependence in the world through financial integration has heightened the need to engage in international economic and financial cooperation. A broad definition of contagion implies the transmission of shocks from one country to another through various channels. In particular, with integrated markets, financial instability is unlikely to remain within national borders. Indeed, cooperative efforts at both regional and global levels are needed to counter the negative spillovers or externalities. For example, the IMF's surveillance process serves the purpose as a public good.

As Glick and Rose (1999) point out, crises have a regional component so that neighboring countries have a strong incentive to engage in mutual surveillance and to extend one another assistance in the face of potentially contagious threats to stability. Whether or not the primary source of the Asian financial crisis was the sudden shifts in market expectations and confidence, foreign lenders were so alarmed by the Thai crisis that they abruptly pulled their investments out of the other countries in the region, causing the crisis to be contagious. The geographical proximity and economic similarity (or similar structural problems) of these Asian countries prompted the withdrawal of foreign lending and portfolio investment, while differences in economic fundamentals are often overlooked. If the channels of contagion cannot be blocked off through multilateral cooperation at the early stage of a crisis, countries without their own deep pockets of foreign reserves could not survive independently. Hence, neighbors have an interest in helping put out a fire (a financial crisis) before it spreads to them (Ito et al., 1999). As long as a crisis remains country-specific or regional, there is no urgent political need for unaffected countries to pay the significant costs associated with playing the role of a fire fighter.

Monitoring and surveillance is the bedrock on which coherent policy formation under the regional financial arrangements rests. A joint effort is being explored within the ASEAN+3 framework to serve that purpose. A monitoring and surveillance unit (or process) would provide prompt and relevant information for assessing the situation of countries in trouble and potential contagious effects of a crisis to neighboring countries. Furthermore, a joint exercise based on a region-wide early warning system would facilitate closer examination of financial vulnerabilities in the region. In addition, the regional monitoring and surveillance process would contribute to ensuring effective implementation of high-quality accounting and auditing standards, strong disclosure requirements, credible rating agencies and appropriate corporate governance. As the OECD is not a superfluous organization to its member countries, the regional monitoring and policy surveillance along with regional facilities would greatly contribute to the further development of financial markets and institutions in the region.

2. Spectrum of Regional Financial Cooperation

The three pillars of liquidity assistance, monitoring and surveillance, and exchange rate coordination are essential elements for regional financial and monetary cooperation. However, regional financial cooperation will be evolutionary as shown in the case of European monetary integration. Although a full-fledged form of monetary integration is not viable at this stage, East Asia may begin to examine the possibilities and desirability of cooperation and coordination in exchange rate policies – creation of a regional exchange rate mechanism and eventually an East Asian common currency. In this regard, the CMI could be regarded as a significant step, providing a basis upon which further regional financial and monetary cooperation can evolve (Henning, 2001).

As a supporting instrument and mechanism, regional monitoring and surveillance will also vary, depending upon the stage of regional financial and monetary integration. As the region has a more integrated institutional form, more comprehensive and binding policy coordination will be required. In this regard, regional monitoring and surveillance ranges along a spectrum from simple information exchange and informal consultation forums to a supranational entity like the EMU. At the one extreme point of the spectrum lies policy independence, in which governments simply take the policies of other governments as given, attempting neither to influence them nor be influenced by them. They merely exchange the information and consult multilaterally without any formal pressure. Between independence and integration lies coordination–joint problem identification and pursuit of mutually beneficial policy objectives. Informal consultation, peer pressure, and rule-based penalties may be used for encouraging and enforcing certain common policies (UN ESCAP, 2000).

According to Crockett (1987), there are several steps needed for effective cooperation.

- A common understanding of the objectives that are being pursued
- An appreciation of the nature of the economic environment within which national economies interact
- An analytical framework for assessing the international impact of economic policies and the performance of individual countries
- A set of procedures that properly takes into account international considerations in framing national policies

Monitoring and surveillance has an important role to play in multilateral economic cooperation, but it varies with given policy objectives. If common policy objectives were more broadly spelled out, an informal exchange of views and non-binding policy recommendations would be sufficient. If more specific policy objectives were pursued such as the convergence criteria in the EMU, tighter coordination and penalties on violation would be required. Thus, the process of monitoring and surveillance only serves the function mandated by the specific body involved.

3. Monitoring and Early Warning Systems

A regular monitoring process is essential for the prevention of crises. The collected information will help detect and identify the characteristics of economic and financial vulnerabilities at an early stage so that a proper menu of policy actions can be taken in a timely manner. Economic and financial sector monitoring will keep a close watch over (1) macroeconomic trends and policy changes (2) financial market developments including cross-border capital flows, and (3) institutional and legal changes. This rather broad coverage of economic monitoring will be useful for a better understanding of the economic situations. However, a selection of quantitative indicators would be more convenient though it might entail the risk of omitting important information.

Since the Asian financial crisis, attention has been increasingly directed to preventing the outbreak of crises by devising a warning system that can diagnose early symptoms of crises for administering timely policy responses. The methodology applied to developing an early warning system largely draws on the leading indicator approach commonly found in business cycle literature.[1] Thus, an early warning system consists of leading indicators that signal in advance the onset of a crisis. Selected leading indicators considered in recent studies are provided in Table 1. The development of leading indicators presumes that an economy exhibits consistent and regular patterns of behavior prior to a crisis. Hence, selecting reliable indicators is the crucial step in formulating the early warning system. However, not all crises are alike, and consequently one would not expect the same indicator to be a good signal for each type of crisis. Furthermore, one observation is that banking and currency crises in emerging markets do not typically arrive without any warning (Goldstein, Kaminsky, and Reinhart 2000).

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[1] Most recent empirical studies on early warning systems follow one of the three approaches: the signals approach, probit or logit models and regression models. See UN ESCAP (2000) for a summary of the models.

Table 1. Selected leading indicators of banking and currency crises

Indicator	Transformation	Data frequency
Real output	12-month growth rate	Monthly
Equity prices	12-month growth rate	Monthly
International reserves	12-month growth rate	Monthly
Domestic/foreign real interest rate differential	Level	Monthly
Excess real M1 balances	Level	Monthly
M2/international reserves	12-month growth rate	Monthly
Bank deposits	12-month growth rate	Monthly
M2 multiplier	12-month growth rate	Monthly
Domestic credit/GDP	12-month growth rate	Monthly
Real interest rate on deposits	Level	Monthly
Ratio of lending interest rate to deposit interest rate	Level	Monthly
Real exchange rate	Deviation from trend	Monthly
Exports	12-month growth rate	Monthly
Imports	12-month growth rate	Monthly
Terms of trade	12-month growth rate	Monthly
Moody’ s sovereign credit ratings	1-month change	Monthly
Institutional investor sovereign credit rating	Semiannual change	Semiannual
General government consumption/GDP	Annual growth rate	Annual
Overall budget deficit/GDP	Level	Annual
Net credit to the public sector/GDP	Level	Annual
Central bank credit to public sector/GDP	Level	Annual
Short-term capital inflows/GDP	Level	Annual
Foreign direct investment/GDP	Level	Annual
Current account imbalance/GDP	Level	Annual
Current account imbalance/investment	Level	Annual

Source: Goldstein, Kaminsky, and Reinhart (2000)

In our view, the early warning system itself may not have enough credibility from the perspective of investors in the sense that it is just a statistical exercise with no credible content, especially when attention is given to the quality and availability of the published data. In fact, the difficulty with constructing an early warning system for developing countries arises from the lack of reliable statistics, which are largely distorted or superimposed with other non-economic factors. In this line, the international community has repeatedly stressed that provision of comprehensive, timely, and accurate economic data by member countries is essential for effective Fund surveillance.[2] The Fund is intensifying its efforts to assist countries to improve data quality.[3]

In addition to data problems, precisely because crises and economies can vary in nature, "one size may not fit all" when it comes to leading indicators. As also pointed out in Goldstein, Kaminsky, and Reinhart (2000), a broader set of indictors should be considered. For example, the share of short-term debt in total external debt, as well as proxy for capital flight, does quite well in anticipating currency and banking crises.[4] Political and institutional variables also have some predictive power in anticipating a currency crisis.[5] As the contagion effect can be an important cause of crises, early warning models should be extended to incorporate the channels of contagion. In short, accurately forecasting the timing of a crisis is likely to remain an elusive goal for academics and policy makers alike.

For an early warning system to have reliability, it should send a set of signals and pressures on participants in financial markets so that they modify their financial positions. As a result, any misalignment in exchange rates can be corrected before it becomes too late. In this context, even the most desirable early warning system itself cannot function properly without a degree of market discipline such that financial markets provide signals and incentives for borrowers to behave in a manner consistent with their solvency. An early warning system is inherently a surveillance device for preconditions of enhanced market discipline, which include statistical transparency, policy consistency, and a resilient financial system. Thus, it is obvious that an early warning system by itself cannot prevent a crisis if necessary adjustments in the market do not take place in time. The operational aspects of market discipline with credible policy responses are more important in preventing a potential crisis (Goldstein and Calvo, 1996).

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[2] Admittedly, better information is no panacea for avoiding financial crises: in some cases, faulty economic analyses and/or unexpected developments were the driving force. Even with better information, private financial markets will still sometimes be subject to misguided self-fulfilling expectations (Goldstein and Calvo, 1996, p. 258).

[3] See IMF (2000b) for a more detailed discussion on data issues.

[4] Furman and Stiglitz (1998) make a good case for including the ratio of short-term external debt to international reserves as an indicator in future early warning exercises (Goldstein et al. 2000).

[5] The main constraint on making use of the institutional characteristics is that one cannot get high-frequency measurements on them (Goldstein et al. 2000).

4. Enforcement Mechanisms: Does Peer Pressure Work?

Under a loose and informal policy dialogue framework, formal enforcement mechanisms to impose sanctions and fines on countries that do not comply with agreed policy guidelines and recommendations may not be needed. In keeping with the ASEAN policy of non-interference, the regional surveillance process in East Asia is built on the basis of consensus and informality. East Asia in contrast to Europe lacks the tradition of integrationist thinking and the web of interlocking agreements that encourage monetary and financial cooperation. In this sense, East Asians may not be prepared to negotiate international agreements which include provisions for sanctions and fines for countries that do not adjust their domestic policies as needed for common policy objectives (Park and Wang, 2000a). This unwillingness would make it difficult for a regional surveillance process to impose politically unpopular policies on the member countries and, hence, may pose a serious moral hazard problem.

It is worthwhile to distinguish conceptually two different types of moral hazards in conjunction with regional financial arrangements and related surveillance processes. One is related to liquidity assistance, while the other is related to collective actions required for common policy objectives. The former is tantamount to the IMF's bilateral surveillance and its conditionality attached to the liquidity provision. If the CMI develops into more or less an independent financial arrangement from the IMF, then the regional financial arrangement should be designed so as not to undermine the Bagehot rules (Kim, Ryou and Wang, 2000).[6] The proper conditionalities or pre-qualifications should discipline the borrowers to adhere to sound macroeconomic and financial policies. Otherwise, the Asian financial arrangement will go bankrupt.

As shown in Arnott and Stiglitz (1991), the same analogy may be used to explain the necessity for peer monitoring in the case of a regional fund. Assume that there exist the IMF and a regional fund. The IMF will play the role of an insurance firm that has its own monitoring and surveillance device. However, the presence of a regional fund as a cooperative partnership fund will complicate the welfare consequences, depending on whether the regional fund is in a better position to monitor the effort than the insurance firm. If the regional fund cannot effectively harness its monitoring capabilities to reduce

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[6] A regional lender of last resort can address moral hazard problems by adhering to the classic Bagehot rules of lending (a) freely to solvent borrowers, (b) against good collateral, and (c) at a penalty rate.

the moral hazard problem, countries may become less cautious; the IMF will tend to provide less insurance. As in Arnott and Stiglitz (1991), the regional fund may crowd out the more effective insurance provided by the IMF, thus becoming completely dysfunctional. In this regard, peer monitoring is essential for controlling the moral hazard involved in the partnership, and may even improve social welfare by enhancing the countries' risk-sharing capabilities.

The latter type of moral hazard is not necessarily related to liquidity assistance. When common policy objectives are set, joint policy coordination is required to achieve a desirable outcome. Peer pressure is likely to work better when observable policy parameters are rather subjective and policy impact on neighboring countries is rather neutral. A broad category of recently proposed international standards and codes may belong to this category. East Asian countries should be encouraged to adopt the best international practices but a degree of variation and flexibility should be permitted. The OECD type of economic surveillance is feasible for the regional process. If East Asian countries pursue some form of exchange rate coordination, a set of policy parameters should be closely watched to effectively coordinate the policy actions. Otherwise, in the absence of an incentive-compatible mechanism, countries may have an incentive to make less effort.

As for joint partnerships and collective actions, the introduction of a third independent party may make the team incentive problem more manageable. However, without an institutional setup, mere peer pressure or a peer review process cannot provide an effective incentive to commit member countries to perform the required collective activities for common policy objectives. To ensure that peer pressure is effective as a motivational device, a set of policy objectives should be clearly defined. Furthermore, it is essential that policy recommendations agreed upon by member countries should be made public, thereby reinforcing peer pressure through monitoring in the marketplace. To prevent free-rider problems, effective monitoring is essential to identify which parties do not comply with particular policy efforts. However, policy efforts are not always observable so that moral hazard prevails in this kind of uncertainty.

Kandel and Lazear (1992) note the usefulness of classifying peer pressure as either internal or external. Internal pressure exists when an individual gets disutility from hurting others, even if others cannot identify the offender. External pressure is created when the disutility depends specifically on identification by others. The internal pressures are the equivalent of guilt, whereas the external pressures are like shame. In the context of surveillance, the important issue is observability. A country feels shame when others can observe its actions. Without observability, only guilt can be an effective form of pressure. A surveillance and monitoring unit should exert peer pressure to motivate member countries to perform the required activities. Key observable policy parameters (expected policy efforts) should be developed in order to give a clear message to the offenders. Otherwise, some offenders may feel guilty, but not make the maximum efforts required for common policy objectives.

Team spirit and partnership should be based on mutual trust and a sense of responsibility. Those psychological components may be more important than institutional settings or rule-based norms. However, both internal and external pressure will fail when there is neither self-imposed guilt nor a feeling of shame. Then, a group of participants should devise a credible punishment mechanism. That punishment should not be random, but should be deliberately designed, specifying under what conditions penalties or sanctions will be imposed. As long as the enforcement mechanism works as a credible threat, the common policy objectives can be achieved through maximum collective efforts.

III. European Experiences

1. Surveillance Mechanisms in the European Payment Union

The European Payment Union (EPU) was introduced on 1 July, 1950 for the restoration of free trade and payments after World War II and remained in existence until 27 December, 1958. The EPU was a mechanism to change the bilateral payment system in intra-European trade into a multilateral one.[7] Each country reported all bilateral deficits and surpluses at the end of every month to the Bank for International Settlements (BIS), the EPU's financial agent. These were netted out into one overall net

[7] After World War II almost all the European countries suffered under the lack of dollars, the only convertible currency at that time. This led to trade with a bilateral payment system. Under the bilateral payment system many countries experienced difficulties because they did not have the currency of their trade partners, even if they had trade surpluses with other countries. This was the reason the EPU was needed in Europe. See details in Eichengreen (1993).

position toward the EPU. The net position of each month was cumulated over time and the net position of each country with the union as a whole had to be settled

With this system in place, intra-European trade was multilateralized and became payable. The regional trade volume expanded significantly, while trade with other countries slightly diminished. The EPU reduced settlement in gold and dollars through multilateral and inter-temporal counterbalancing by more than 75 percent compared to what would have been required under the bilateral payment system (Eichengreen and De Macedo 2001).

The 18 participating states of the EPU could overcome the dollar shortage and expand trade since EPU membership required the liberalization of trade. The direct benefits of the EPU were credit and the further liberalized regional market. To enjoy these benefits, member countries were obliged to report all the surpluses and deficits in their bilateral trade with other member countries. They also had to accept restrictions on imports from extra-European sources through the use of import licensing, foreign exchange rationing, and the other administrative devices associated with inconvertible currencies.

The Managing Board of the EPU was the responsible authority for policy decisions and surveillance. The most important task of the Managing Board was minimizing the scope for exploitation of creditors by debtors. When a member threatened to exhaust its quota, the EPU Managing Board, comprised of independent financial experts reporting to the Council of the OEEC, met to give advice and recommend corrective policies. Discussions were often initiated before the quota was fully exhausted, and it was made clear that the provision of exceptional assistance was contingent on the country's early adoption of adjustment policies (Eichengreen 1993, p. 26).

The EPU is said to have facilitated the resolution of balance-of-payment problems. Its Board extended supplementary credits to countries that exhausted their EPU quotas, attached conditions to their provision, and monitored domestic policy adjustments. Officials of countries receiving exceptional credits were required to appear at the monthly meeting of the EPU Board for questioning and to submit monthly memoranda for the Board's review (Eichengreen 1993, p. 36). The EPU Managing Board achieved authority by its effective implementation of what much later became known as multilateral surveillance (Gros and Thygesen 1998, p. 8).

The objective of monetary cooperation in the EPU was securing a payment system, which had been a serious barrier to trade and economic reconstruction. The Managing Board did not only monitor information but also gave directives regarding economic and monetary policy.

2. The Bretton Woods System and the Treaty of Rome

In the 1960s the Bretton Woods system became operational. This system established fixed exchange rates between all European currencies and the US dollar, which was linked to gold with a fixed parity. Under the Bretton Woods system European countries could enjoy a stable exchange rate and favorable international macroeconomic environment. According to the IMF rules, a 1% band of variation around the central exchange rate against the dollar implied a potential fluctuation of 4% between two European currencies. The European countries agreed to set the band of fluctuations against the dollar at 0.75%, so that the potential margin fluctuation of exchange rate could be limited to 3%.

The great event in Europe after the dissolution of the EPU was the formation of the European Economic Community (EEC). Six European countries signed the Treaty of Rome to build a customs union and the Common Agricultural Policy. To stabilize these two forms of integration, the EEC needed economic policy coordination and the balance of payments. Paragraphs 103 to 107 of the Treaty of Rome state explicitly that each member country considers its conjunctural policy and its exchange rate policy as matters of common concern. However, these provisions of the Treaty did not have any practical meaning because the IMF was in charge of exchange rate policy and balance of payments assistance.

However, the Treaty of Rome established two important monetary institutions. The first institution is the Monetary Committee, which comprises one representative from the central bank and one from the finance ministry of each member country and two representatives of the EC Commission. This committee provided a useful forum to exchange information and to prepare for the meetings of the Council of Ministers of Economics and Finance (ECOFIN). The second institution is the Committee of Governors of the Central Banks of the Member Countries of the European Community. This Committee was established in 1964 and met monthly on the premises of the Bank for International Settlements (BIS) in Basle. Through these institutions national monetary officials have been meeting regularly for over thirty years to exchange information and experiences and to resolve technical issues.

Another important institution in the general economic sphere is the Council of Ministers for Economic and Financial Affairs (ECOFIN). The Council of Ministers is the main decision-making body composed of the relevant ministers, which decides almost all the important resolutions in the economic and financial field and gives directives to other institutions. Thus, ECOFIN has played the role of a headquarters in the process of economic and monetary integration in Europe.

The main issue for the Community in the monetary area in the 1960s was the question of whether exchange rate adjustments could disrupt the functioning of the customs union and the Common Agricultural Policy. The IMF has taken over this concern and supported securing the system of fixed exchange rates and balance of payments. The European countries did not have much to do in the monetary field. The early 1960s was a period of low unemployment and relatively stable prices. Capital could not move freely from country to country. In the given economic environment, strong government intervention was not needed. Active economic cooperation was not necessary either, because the economies were less integrated in those years.[8]

The objective of monetary cooperation in this period was supporting economic integration by securing exchange rate stability. The surveillance institutions were merely vehicles for exchanging information. Cooperation and surveillance in the monetary field was organized more actively by the IMF rather than by European institutions. As the European countries did not have problems with the Bretton Woods system, monetary cooperation among European countries stayed inactive.[9]

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[8] The relation of intra-EC trade to GDP stood only at about 6% in 1960. It went up to 12% in 1970 and 15% 1990s. See Gros and Thygesen (1998), p. 10.
[9] The Werner Plan was completed in 1970 and endorsed by the Council of Ministers in 1971. The Werner Report had recommended the rapid adoption of a common currency. Three stages were envisioned, including the pooling of foreign exchange reserves for joint intervention. However, the Plan was abandoned.

3. The Snake System: 1972~1978

As the Smithsonian Agreement tripled the margin of fluctuation against the dollar to 2.25% after the Bretton Woods system had been destabilized, it would have been possible for the exchange rate between any two EC currencies to move by up to 9% against each other. This would not have been compatible with the functioning of the common market and Common Agricultural Policy. The EC member states agreed to reduce the margin of bilateral fluctuations to 4.5% (±2.25%) and to float jointly against the dollar. This Basle agreement was known as the Snake System. This system, however, did not function well because each European country faced a different economic situation. Some countries had the pressure of devaluation while others were under revaluation pressure. Even though Germany intervened several times in favor of weak currencies, it could not save all the currencies. Many countries repeatedly withdrew and rejoined as well as realigned. The inability to develop a joint response to movements of the dollar was a major source of concern for leading European countries.

The Marjolin Committee attributed this failure to three principal factors: unfavorable events in the global economy, a lack of political will to face these difficult circumstances and insufficient analysis at the level of national governments to appreciate what would be required in terms of pooling authority to achieve EMU (Gros and Thygesen 1998, p. 21). [10]

The new institution for surveillance in the Snake System is the European Monetary Cooperation Fund (EMCF) set up in April 1973. The fund was charged with monitoring the 'Community's exchange rate system' and assuring the multilateral nature of net interventions of participating central banks in EC currencies. The Fund was to take care of the administration of existing very-short-term and short-term facilities. The BIS was appointed as an agent for this task. The legal seat was to be in Luxembourg and its board meetings were to be held there. The governors of the EC national central banks were to constitute the board. The Fund did not play any relevant role until it was integrated into the European Monetary Institute (EMI) in 1994. The Fund met formally just for a few minutes after the meeting of the Committee of Central Bank Governors in

[10] The Marjolin Committee was a committee of independent experts chaired by former EC Commission vice president and OEEC Secretary General Robert Marjolin. This group was asked to review the prospects for achieving EMU by 1980.

Basle.

All issues, however, were discussed in the Committee, not in the Board. The main reason for the weak presence of the Board was its formal subordination to the ECOFIN Council. Their authority was explicitly constrained to act in accordance with guidelines and directives adopted by ministers. Since this was unacceptable to several governors, substantive work remained with their committee. Created prematurely and lacking real authority, the launching of the EMCF contributed little to the procedure of monetary integration.

With regards to the monetary policy, the Committee of Central Bank Governors was asked to establish general guidelines, to be followed by each member country, for bank liquidity trends as well as the terms for supplying credit and the level of interest rates. The Committee of Governors established a Committee of alternate and expert groups to monitor foreign exchange market developments and trends in national money supplies and their main determinants. A Working Group on Harmonization of Monetary Policy Instruments was set up by the Committee of Governors and Monetary Committee to follow up on the March 1971 decision. But these new institutions did not really work, although there was an increase in the exchange of information about domestic aspects of monetary policy. The problem of these institutions was that the responsibility of conducting analytical work rested on individual national authorities rather than regional authorities. This made it difficult to challenge the interpretation of individual nations that tried to protect their own policies.

The prospects looked better for coordination of budgetary policies. Detailed procedures for the examination of the economic situation in the EC and the adoption of guidelines for public budgets by the ECOFIN Council had been agreed upon in the March 1971 decision. ECOFIN adopted in 1974 the decision on the attainment of a high degree of convergence of the economic policies of member states. The adoption of this decision indicates that both the Council and the Commission had retained their belief in the need for exercising joint and discretionary authority over the stabilization function of national budgetary policies after the oil shock.

In this period, the overall economic environment had deteriorated and economic divergence among European countries has become greater. Each country merely sought to solve its own problems without regarding Europe as an entity. The economic policy of each country was made at the national level. Policy coordination in the monetary field was realized just on the level of information exchange. The European countries could not accept higher-level cooperation, because each country had to give up its national economic policy in times of need. Surveillance systems could not function well either.

4. European Monetary System (EMS): 1979~1992

The nine EC member countries were divided into two groups with very different economic performances and exchange rate regimes by 1977. One group had achieved some success in keeping inflation moderate and had maintained the outward appearance of having the intention of participating in the Snake System. Germany, Benelux countries and Denmark, with Norway as an associate member, belonged to this first group. The other group floated their currencies individually and all experienced high inflation, current-account deficits and substantial depreciation. The currencies in the second group were the pound sterling, the French franc, the lira and the Irish punt, which was in a monetary union with the pound sterling. It seemed difficult to devise an exchange rate system, which comprised both groups of countries.

The EMS was negotiated at first between the President of France and the Chancellor of Germany. With the plan for the EMS, Germany offered its western neighbors the possibility of returning to monetary cooperation and France opted for a more thoroughly stability-oriented economic and monetary policy. Germany had three objectives to achieve: first, stabilizing the trading environment for most of Germany's trade, second, protecting Germany against critics of international society for being too expansionary, and third, increasing the European influence on international policy making.

The EMS had three components - the ECU, an exchange rate mechanism, and credit facilities:

- The ECU: Europe introduced an artificial currency based on the EU currencies as a means of payment for intervention and settlement. It was calculated as the weighted average of all the participating currencies, reflecting their respective economic strengths. The primary function of the ECU was to constitute a unit of payment and account for the exchange rate and intervention mechanism and for the development of the credit mechanisms. It was also a limited reserve instrument. European countries were then able to use their own currencies to intervene. This improved the potential to secure the internal stability of exchange rates and block the influence of dollar instability.

- The exchange rate mechanism: This was the core component of the EMS. A central rate for each EMS currency was set in ECUs and the various participating currencies got a full set of bilateral exchange rates. These could be varied within a given margin. The basic margin was set at ±2.25% and ±6% for the UK, Italy and Spain for some time. If rates hit the margin, the central banks had to immediately intervene by buying or selling the foreign exchanges to even out the fluctuations. The main advantage of this system was that a country whose currency reached its margin against a Community average had to intervene, regardless of whether that currency was strong or weak. The burden of intervention was to be shared in the EMS, while the burden of adjustment in the Snake System went to the weak currency. This intervention mechanism relieved the countries with weak currencies greatly at the cost of joining the EMS. If the central rates broke out through the upper or lower limits, there had to be realignment. The realignment was prepared by the Monetary Committee and required a unanimous decision of the ECOFIN. The Basle/Nyborg agreement of September 1987 on the reform of the EMS introduced a safeguard clause to prevent realignments by allowing the central banks to intervene within margins before extremes were reached.

- Credit facilities: The three existing credit facilities were extended in the EMS. A central bank, which did not have adequate foreign exchange reserves to intervene, could get a very short-term facility of an unlimited amount from the EMCF. Central banks of strong currencies had an obligation not to restrict the amounts of their own currency used to defend the existing bilateral margins. The EMS enlarged the existing short-term monetary support and medium-term facilities in volume and terms of duration and rates.

The EMS was able to bring together European countries to cooperate again in the monetary sphere and became the focus of the monetary cooperation policy. The EMS enjoyed stability without realignments and additional participants in the second half of the 1980s. There were several attempts to move on from the EMS to a common currency before the crisis of the system following German unification and the worldwide recession in the beginning of the 1990s. After a long period of stability, the finance ministers and central bank governors expanded the bands to ±15% in August 1993. The blurred prospect of further monetary integration found a new turn through the Maastricht Treaty.

The EMS followed the objective of internal stability of exchange rates, because the economic interaction between European countries became more significant, prompting them to seek the political power more appropriate to their economic position in international society. The EMS used the same surveillance institutions but the institutions became more active. The Monetary Committee and the Committee of Central Bank Governors made their consultations on exchange rate matters in March 1977 on the directive of ECOFIN. The Commission submitted, at regular intervals, analytical papers on recent trends and prospects in exchange markets, generating a more intensive exchange of information and views.

5. Economic and Monetary Union (EMU): 1993~ present

Delors Report and the Treaty on European Union

The Hannover European Council of June 1988 set up a Committee for the Study of Economic and Monetary Union in the European Community, presided over by the president of the EC Commission, Jacques Delors. This is the so-called Delors Committee. In April 1989, the submitted report of this committee proposed to move towards economic and monetary union in three stages. It stressed the need for greater coordination of economic policies, rules on the size and financing of national budget deficits, and a new, completely independent institution which would be responsible for the Union's monetary policy.

On the basis of the Delors Report, the Madrid European Council decided in June 1989, to launch the first stage of EMU: full liberalization of capital movements in eight member states by 1 July 1990. In December 1989 the Strasbourg European Council called for an intergovernmental conference to amend the Treaty for introduction of full economic and monetary union. The work of this intergovernmental conference led to the Treaty on European Union, which was formally adopted by the Heads of State and Government at the Maastricht European Council in December 1991 and signed on 7 February 1992.

The Treaty provides for economic and monetary union to be introduced by the end of the century in three successive stages according to a precise timetable:

- The first stage began on 1 July 1990. The essential objectives of the first stage were to increase monetary coordination, to bring all member countries into the EMS, to complete the single market and to carry out preparatory work on the Treaty amendments that would later be necessary.

- The second stage started on 1 January 1994. Member states were to make significant progress towards economic policy convergence: precise rules on public financing were adopted and a new type of monitoring was introduced and carried out by the Commission. The most important aspect of the second stage was the setting up of a European System of Central Banks. The European Monetary Institute (EMI) was established for this task. The EMI was to strengthen cooperation between the national central banks and to carry out the necessary preparations for the introduction of a single currency.

- The third stage, the start of EMU, began on 1 January 1999. This phase provides for the transition to a single currency. EMU was subject to the achievement of a high degree of durable convergence measured against a number of objective criteria laid down by the Treaty. [11] The budgetary rules have become binding and a member state not complying with them is likely to face penalties. A single monetary policy was introduced and entrusted to the European System of Central Banks (ESCB), made up of the national central banks and the European Central Bank (ECB), which took over from the EMI. The national currencies have been substituted with the single European currency, the euro.

Transition to the EMU: Convergence Criteria and EMI

The negotiations concerning the provisions regarding the transnational phase and the forms of the second and third stages proved particularly difficult. Although decision-making power concerning matters of monetary policy remained with the member countries during the second stage, under Article 109e of the EC Treaty the

[11] See Article 109j of the Treaty.

process leading to the independence of their central banks started. In terms of the institutions, the preparations for EMU resulted in the European Monetary Institute being set up on 1 January 1994 as a precursor to the European Central Bank. Three main tasks for the EMI are listed in Article 109 of the Maastricht Treaty and in Article 2 of the Protocol on the Statute of the EMI:

- strengthening the coordination of monetary policies with a view to ensuring price stability,

- making the necessary preparations for the establishment of the ESCB and for the implementation of a single monetary policy and the creation of a single currency in the third stage, and

- overseeing the development of the ECU.

The EMI was better equipped than its predecessor, the Committee of Central Bank Governors, to facilitate and reinforce coordination of national monetary policies during the transition. First, by 1996, the EMI had become a sizeable and professionally highly competent institution with a staff of more than 200. These resources made it possible to centralize analytical functions and operate more efficiently than prior to 1994, when the preparation of coordination efforts and analyses of policies in individual countries were performed in a decentralized and often defensive way. Second, Article 8 of the EMI Statute confers upon the members of the EMI Council a strong degree of autonomy in exercising their collective task. They do not take any instructions from EU institutions or bodies or from governments of member states. Third, Article 109f of the Maastricht Treaty confers upon the EMI Council the right to formulate, by a qualified majority, opinions and recommendations not only on the overall orientation of monetary policy and the functioning of the EMS, but also on the conduct of policy in member countries. Even if monetary policy in Stage II is seen to be fully in national hands, these provisions may have introduced an element of collective responsibility, which did not previously exist.[12]

The EMI's general function is to support the efforts of the member countries to

[12] See Article 103, 4 of the Treaty.

create the conditions for entry into the third stage. It is also developing instruments and procedures for the implementation of a single monetary policy.

A credible stability policy and a high degree of convergence on the part of the economies involved are essential if a common currency is to be stable. All EU countries are allowed to participate in the second stage, but in order to enter the third stage, all the convergence criteria given by Article 109j have to be met.

- First, a high degree of price stability: This is considered achieved when a country's inflation rate exceeds the average inflation in the three best-performing member states by no more than 1.5%.

- Second, the sustainability of the government financial position: This condition is fulfilled when annual government debt is no more than 3% of the GDP and total public debt does not exceed 60% of GDP.

- Third, exchange rate stability: Currencies are required to remain within the narrow EMS band for at least two years without devaluation against the currency of any other member currency.

- Fourth, the durability of convergence: This condition is measured by nominal long-term interest rate levels, which may not be more than 2% higher than the average of the three countries with the lowest rates of inflation.

The demanding convergence criteria formed the basis for monitoring economic performance throughout the second stage. From 1994 the EC Commission and the EMI prepared regular reports to the ECOFIN Council on convergence progress in terms of the four criteria.

Policy Dialogue under the EMU: Stability and Growth Pact

The Stability and Growth Pact clarifies the Maastricht Treaty's provision for dealing with "excessive deficits" and provides an institutional framework for its enforcement, in part through strengthened surveillance and coordination of economic policies via the annual review of the national stability program. The Pact also calls on participants in the Economic and Monetary Union (EMU) and those countries with a single monetary policy to adopt budgetary balance as the medium-term objective.

The Pact considers a general government deficit above 3% as excessive unless the European Union judges it to be temporary and there are special circumstances. Temporariness implies that according to the projections of the Commission, the deficit falls beneath the 3% threshold in the following year. In the case of an excessive deficit, the Council, on the recommendation of the Commission, proposes a course of action for the country, which should be followed by effective measures within four months. The Council monitors the measures and if they are found to be inappropriate it makes further detailed proposals. If corrective measures have not been implemented within ten months, sanctions shall be imposed. These would initially take the form of non-remunerated deposits, with a fixed component equal to 0.2% of GDP and a variable component rising in line with the size of the excessive deficit. Even though such deposits are limited to a maximum of 0.5% of GDP per year, they would accumulate each year until the excessive deficit is eliminated. If the excessive deficit is corrected within two years, the deposits shall be returned to the country, otherwise the deposits are not returned.

When a country is judged to be in recession, which is defined as an annual fall in real output of at least 0.75%, the Pact will be enforced in a differentiated manner. If economic output in a member country declines by 2% or more and the deficit is temporary, exemption from the procedure is granted automatically. If GDP falls by between 0.75% and 2%, the Council can grant exemption in special circumstances. The country would need to convince the Council that the economic decline was exceptional in terms of its abruptness or in relation to past experience.

Other Issues for Policy Dialogue under the EMU

Under the EMU many topics are on the list for policy dialogue. The unified single monetary policy has a duty to secure the stability of the euro. However, the meaning in the practice is not explained in the Treaty. Exchange rate policy against third currencies is another theme to be discussed. Labor market policy should be harmonized to support the EMU. Expansion of the EMU requires extensive policy dialogues to satisfy both existing and future member countries.

Policy Coordination under the EMU

With the deepening of integration, centralized regulatory functions of the EMU have increased significantly. However given the diversity in member countries' interests, histories, and institutions, policy preferences still differ considerably more than in a mature federation. It calls for a high degree of policy coordination in the ongoing deepening and widening of the Community. In recent years several initiatives have been aimed at policy coordination by consensus building, exercising peer pressure and sanctions in the Stability and Growth Pact. In this context, the Council has issued the 'Broad Economic Policy Guidelines' annually since 1993. The guidelines are a key reference document for the conduct of economic policy as they represent a synthesis of the Community's consensus on economic policies. They cover both macroeconomic and structural policies, outline Community goals and also give country-specific recommendations. The EU sometimes uses benchmarking as an instrument for cooperation, for instance EU-wide benchmarking of industrial performance and co-ordination of research efforts.

With the increasing degree of integration, the national competences are being transferred to the Community. New institutions are being established and the working capacity of the Community has expanded considerably. The European System of Central Banks (ESCB) is a representative example in the monetary sphere. Following the increased competence, the Community has been increasingly taking on the task of correction besides monitoring and surveillance. More intensive policy coordination in advance is required to implement the envisaged correction goals, which in turn calls for safeguard clauses. The EMU is now facing the problem of chasing two rabbits, a region-wide policy as well as subsidiary principle.

6. Lessons out of the European Experience

The development of an efficient policy coordination mechanism is a key feature of the European economic and monetary integration. As shown in Table 2, the European surveillance mechanisms were evolutionary along with different exchange rate and institutional regimes. As regional economic and monetary integration deepened, the region adopted a more sophisticated surveillance mechanism as a device for policy coordination. During the transitional period to the adoption of the euro, in particular, there was a remarkable convergence of views on the need to conduct sound macroeconomic policies and implement structural reforms in the markets for goods, labor and financial products. To do so, the member states have progressively developed a more comprehensive set of surveillance procedures for policy coordination. The procedures vary substantially among policy areas. At one extreme, monetary policy has been completely centralized with the creation of a new institution, the European Central Bank. Public finance and especially deficits are subject to strict rules and in extreme cases sanctioning mechanisms. However, in other areas such as employment policy and structural reform, policy coordination is largely based on consensus and best practices, while enforcement relies on peer pressure (Dixon, 2000). The European experience offers several lessons for effective surveillance.

The first lesson is that clearly specified objectives enable effective surveillance. The EPU was able to enjoy the most effective surveillance system in the European experience because each country was able to see the concrete benefits of the partnership.

The second is that member countries must nominate or establish authorities to be responsible for surveillance. These authorities need to have the necessary resources and powers for their surveillance activities. The engagement of competent bodies like ECOFIN, Committee of Governors, and the Monetary Committee has contributed to the success of the surveillance mechanisms in Europe over thirty years.

The third is that the regional body should have its own surveillance authority, which ensures technical competence and professional integrity of their personnel, and acts in an independent and non-discriminatory way. The regional authority should be able to produce its own analysis and views to overcome the conflict in interest of national authorities.

The fourth is that the surveillance mechanism should develop with the degree of regional integration. Monitoring or information exchange is enough in the lower stages of integration, while the task of implementing is needed in the higher stages of integration. If the surveillance mechanism exceeds the degree of integration, the mechanism will not function properly, because national bodies will not support it.

The fifth is that administrative cooperation is an obligation of member states. National and regional surveillance authorities must provide mutual assistance. National surveillance authorities should make information available spontaneously or on request, according to mutually agreed principles and mechanisms. Administrative cooperation needs infrastructure like committees and/or working groups and access to a national database. Commission and Monetary Committee and Committee of Governors have been stable forms of infrastructure in the surveillance system in Europe.

Surveillance Activities

Surveillance activities involve three main stages:

- Monitoring: Surveillance authorities must monitor to ensure that the economic conditions of member countries comply with the provisions of the regional body. The objective of monitoring includes verifying that member countries' economic policies comply with the directives of the community. The surveillance authority should be able to get necessary information about economic policies.

- Corrective Action: Subsequently, when necessary, corrective action should be taken to establish conformity. Before any action is taken, the country concerned must be notified fully and given the possibility of being consulted, unless the matter is urgent. The corrective action depends on the level of non-compliance. The burden of corrective action should be distributed fairly. Corrective action may be just recommended or it may have a binding form according to the degree of integration. It could be discretionary or fixed by rule. The sanctions in the Stability and Growth Pact are half-fixed to give warning against breaking the rules.

- Safeguard Clause Procedure: A form of safeguard clause can prevent member states from breaking rules. A member state must notify the surveillance authority immediately after taking an action that invokes the safeguard clause. The necessary information and evidence to justify the action must accompany the notification. Intervention before the exchange rate reached the extremes in the EMS was a kind of safeguard clause.

This process of surveillance, "Monitoring → Safeguard Clause → Corrective Action," may have various combinations of sub-activities. Surveillance authorities can act in collaboration with national surveillance authorities in order to prevent crises in economic integration.

<Table 2> Historical Development of
Monitoring and Surveillance Mechanisms in Europe

System	Period	Objects	Monitoring and surveillance institutions	Characteristics	Evaluation
EPU	1950-1958	· Trade expansion by securing payment system	· Managing Board	· Bilateral payment system → Multilateral payment system · The Board monitors and gives directives	· Highly effective and successful
Bretton Woods System & Treaty of Rome	1958-1972	· Supporting economic integration by securing fixed exchange-rate system	· Monetary Committee · Committee of Governors	· IMF was more active than regional institutions	· Successful in the 1960s
Snake System	1972-1978	· Maintaining common market and common agricultural policy by reducing bilateral fluctuation and joint-floating against dollar	· European Monetary Cooperation Fund (new) · Monetary Committee · Committee of Governors	· National interests were greater than regional interests	· Not successful and (did not function well?)
EMS	1978-1992	· Securing internal stability of exchange rates	· Same institutions, but more active	· Countries with strong currencies shared the burden of intervention	· Successful
EMU	1993-present	· Introducing single common currency	· EMI in the transition period · ECB after introduction of euro	· National competences are transferred to the community · Binding rules introduced	· Successful until now

IV. IMF's Global Surveillance and Regional Initiatives

The current structure of the CMI does not require a new institution like the AMF, and it is tightly linked to IMF facilities and conditionalities.[13] In this regard, regional surveillance under the CMI will not serve as a structural adjustment program attached to liquidity assistance. However, for preventive purposes, a regional surveillance mechanism will enhance the collective efforts to strengthen the financial systems in the region.

If the CMI develops into an independent regional facility from the IMF, then there must be some potential conflicts between the competing conditionalities of the regional arrangement and the IMF. Henning (2001) asserts that a division of labor whereby Asian governments provide financing while the IMF provides conditionality is attractive from the standpoint of staff resources and energy. He also points out that because such a division of labor also enables Asian officials to avoid specifying political adjustments required of the regional partners, it is attractive for political reasons as well.

If the CMI goes beyond the supplementary role to the IMF and seeks independent conditionality by establishing a regional fund (AMF), then the CMI should have its own strong surveillance process to diagnose economic problems in the region and prescribe appropriate policy recommendations (or conditionalities). Eichengreen (2001) finds it useful to distinguish between technical assistance and financial assistance. True enough, there is no reason to discourage competition in the market for technical assistance. Governments should be free to choose the source of technical assistance with the best track record. However, Eichengreen's concern is that if multiple monetary funds were available, East Asian governments would have an incentive to shop around for the most generous assistance and the least onerous terms. He seems to believe that AMF conditionalities would be much softer than those of the IMF. His concern should be well taken when we consider further development beyond the CMI.

Monitoring and surveillance mechanisms can be carried out at different levels (national, regional and global) and focus on different aspects (macroeconomic, financial

[13] The bilateral swap arrangements under the CMI are premised on the condition that 90 percent of the committed currency swaps would be activated along with the financial support of the IMF.

and institutional), varying with the mandate of the specific body involved (UN ESCAP, 2000). The above discussion is meaningless unless specific structures and objectives of different types of surveillance activities are duly considered. For instance, it is widely agreed that international standards for sound practices at the national level are an obvious vehicle for addressing challenges for collective stability in a world of sovereign states (Eichengreen, 2001). However, the scope and enforcement mechanisms related to harmonization of standards would vary to the extent that different groups and institutions have different targets. The IMF, BIS, OECD, Manila Framework Group, and ASEAN Surveillance Process all have different perspectives on how to achieve common objectives through different instruments such as peer pressure, conditionality and market discipline. In this section, we review the IMF's global surveillance process as a benchmark and attempt to find clues on how to complement that global process with a regional one.

1. IMF Surveillance

One of the core responsibilities of the IMF is to maintain a dialogue with its member countries on the national and international repercussions of their economic and financial policies. This process of monitoring and consultation is normally referred to as surveillance. At its inception, the IMF had a mandate under its Articles of Agreement to exercise firm surveillance over exchange rates and current account convertibility in order to oversee the international monetary system and ensure its effective operation.[14] IMF members were obliged to declare par values and to consult regarding their adjustment until the Bretton Woods fixed exchange rate regime collapsed in the early 1970s. These obligations were fundamentally oriented toward stabilizing and sustaining international trade rather than international capital flows (Eichengreen, 2001). However, the growing cross-border repercussions of national economic policies, transmitted by unprecedentedly large capital flows, led to the Second Amendment of the IMF Articles of Agreement empowering the IMF to conduct "firm surveillance" of its members' macroeconomic policies. A series of emerging market crises in the 1990s further underscored the necessity to expand the scope of surveillance for the purpose of coping

[14] The origin and legal basis of the surveillance function stem from Article IV, section 3(b) of the Articles of Agreement, which states that "the Fund shall exercise firm surveillance over the exchange rate policies of members and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies.

with the intensified global integration of financial markets.

The scope of Fund surveillance has been so widened over time that it can no longer be seen as one unified concept. According to Crow et al. (1999), as currently practiced, surveillance reflects a number of overlapping but conceptually distinct purposes. They have identified six such purposes:

- Policy advice: The Fund offers advice and proposals and also serves as a sounding board for policy dilemmas facing member countries.

- Policy coordination and cooperation: The Fund facilitates policy consultation among groups of countries by providing inputs such as reliable data, forecasts and analysis and the machinery through which policy coordination can take place.

- Information gathering and dissemination: The Fund maintains databases that are useful for policy formulation, and disseminates information that can benefit private market participants and the general public.

- Technical assistance and aid: In many developing countries, surveillance is tantamount to providing technical assistance, owing to the scarcity of expertise in macroeconomic policy-making.

- Identification of vulnerabilities: This is an extension of the information and policy advice role that is particularly relevant when a country's policies are likely to be unsustainable. In this context, early warnings and policy advice given by the Fund to vulnerable countries play a role in formulating prompt corrective policy measures.

- Delivering the message: The Fund provides countries with policy prescriptions on numerous topics, from the advantages of moving toward a system of indirect instruments of monetary control to the need to liberalize labor markets. By doing so, the Fund provides a way by which the prevailing consensus of the economics profession is disseminated to government and policy makers throughout the world.

Traditionally, there have been two levels of surveillance practiced by the Fund: bilateral and multilateral. Bilateral surveillance refers to the Article IV consultations undertaken by the Fund with individual member countries, while multilateral surveillance refers to the systemic analysis and forecasting of the world economy, published in the *World Economic Outlook* and *International Capital Markets Report*. In addition, the IMF and the World Bank have adopted a program of *Reports on the Observance of Standards and Codes* (ROSCs) to enhance incentives for member countries to adhere to internationally recognized standards and codes of good practice.

Bilateral Surveillance

Bilateral surveillance is conducted through Article IV consultations. The IMF holds consultations, normally every year, with each of its members. These consultations focus on the member's exchange rate, fiscal, and monetary policies; its balance of payments and external debt developments; the influence of its policies on the country's external accounts; the international and regional implications of those policies; and on the identification of potential vulnerabilities. These consultations are not limited to macroeconomic policies, but touch on all policies that significantly affect the macroeconomic performance of a country, which, depending upon circumstances, may include labor and environmental policies and the economic aspects of governance. With the intensified global integration of financial markets, the IMF is taking into account more explicitly capital account and financial sector issues (IMF, 2001).

Multilateral Surveillance

Multilateral surveillance is geared more towards the analysis of recent world developments, projections of future development, identification of risks of instability in the international economic system and the proposing of the ensuing policy recommendations. The primary vehicle for the Fund's multilateral surveillance is *World Economic Outlook,* produced twice a year, which provides a comprehensive set of economic forecasts for the world economy. It usually covers the broad areas of the world economic situation, global economic prospects and related policy issues, especially policy stances in industrial countries.

Regional Surveillance

Regular discussions are also held with regional economic institutions, such as those of the Economic and Monetary Union (EMU) in Europe. The Fund has been active in providing inputs to other regional mechanisms for policy consultations. It has been designated as the technical secretariat to the Manila Framework Group. The Fund has also been invited to present economic briefings for the ASEAN+3 finance ministers' meetings. Similarly, the Fund has contributed to the APEC forum mainly through the preparation of background papers. However, these papers do not focus much on regional issues but rather are drawn from available materials resulting from bilateral and multilateral consultations. The Fund conducts regular discussions with regional entities of a number of currency unions, such as the West African Economic and Monetary Union, the Central African Economic and Monetary Community and the Eastern Caribbean Currency Board.

As noted in *External Evaluation of IMF Surveillance* prepared by Crow, Arriazu, and Thygesen (1999), European monetary unification poses special challenges for Fund surveillance, but also new opportunities. For euro area countries, only monetary policy has been centralized (trade policy, of course, has already been centralized for all members of the EU). Budgetary and structural policies continue to be a national responsibility, though the Pact for Stability and Growth subjects such policies to intensive monitoring by the Commission and by the Council of Finance Ministers (ECOFIN). Monitoring of the aggregate performance of the euro area is not yet well developed outside the European Central Bank (ECB), which has to review its monetary stance on the basis of aggregate indicators. This asymmetry in the policy framework implies that it will initially be complex to focus Fund surveillance of the euro area on the aggregate performance. Fund surveillance may, however, gradually be facilitated by an evolution in the policy framework, which is already under way. The Report concludes that Fund surveillance is more likely to have an impact at the euro area level than at the level of individual countries. Consequently, Article IV missions to participants in the euro area should become less frequent, more focused, and leaner. Then, the resources devoted to Fund surveillance could be considerably reduced, because it should be possible for Fund surveillance to rely largely on the work of the European Commission.

Transparency and Observance of Standards

In the wake of the Mexican crisis in 1994-95, and the turmoil in the financial markets of East Asia in 1997, data issues have received increasing prominence in the IMF's work. In aiming to strengthen IMF surveillance, the Executive Board has emphasized the need for provision of timely, reliable, and comprehensive economic and financial data by members. The Fund encourages member countries to introduce greater policy transparency, for instance by providing detailed data on external reserves, related liabilities, and short-term external debt. This is currently done through the IMF's data standard initiatives: the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS). The international community has also called upon the IMF and other standard-setting agencies to develop standards or codes of good practice covering a number of economic and financial areas. The IMF and the World Bank have jointly adopted a program of *Reports on the Observance of Standards and Codes* (ROSCs).[15]

2. Regional Initiatives

Before the Asian financial crisis broke out in 1997, few would have argued for the creation of one or another form of regional arrangement in East Asia. East Asians did not have strong incentives for regional integration through a formal process. Only a market-led integration process was taking place in East Asia. Accordingly, there were few monitoring and surveillance activities at the regional level prior to the crisis. However, the financial crisis that erupted in 1997 was a major financial breakdown that gave East Asians a strong impetus to search for a regional mechanism that could forestall future crises. This search is now gathering momentum, despite the fact that the stage of policy-led integration in East Asia is still rudimentary.

Manila Framework

On November 18 and 19, 1997, a conference of deputy finance ministers and central bank governors from 14 mainly Asian countries was held in Manila, and "A New Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability" (the so-called Manila Framework) was agreed upon. The Manila Framework Group (MFG) centers around the four initiatives: (1) regional surveillance; (2) technical

[15] ROSCs summarize the extent to which countries observe certain internationally recognized standards on a voluntary basis. The IMF has recognized 11 areas and associated standards as useful for the operational work of the Fund and the World Bank. These include data dissemination; monetary and financial policy transparency; fiscal transparency; banking supervision; securities; insurance; payments systems; corporate governance; accounting; auditing; and insolvency and creditor rights. Reports are used to help sharpen policy discussions with national authorities, by rating agencies in their assessments, and in the private sector for risk assessment.

assistance geared towards strengthening the financial sector; (3) bolstering of the IMF's ability to deal with financial crises; and (4) a contingent financing arrangement (CFA) for Asian currency stabilization. Although the MFG has no formal status, there are now biannual meetings among 14 countries/areas plus the IMF, World Bank, and Asian Development Bank.[16] The MFG is now seen as the preeminent forum for regional surveillance and peer pressure. The IMF's Regional Office for Asia and the Pacific provides the Technical Secretariat for the Group. The position of Chair is occupied alternately by an ASEAN and non-ASEAN member. However, the MFG involves only a limited number of the economies in the region (not covering all ASEAN plus three) and its inputs and outputs are not made public, apart from an agreed press release after the meeting.

ASEAN and ASEAN+3 Surveillance Process

In October 1998 the ASEAN finance ministers signed a Term of Understanding that established the ASEAN Surveillance Process (ASP). The overall purpose of the ASP is to strengthen policy dialogue based on the principles of peer review and mutual interest among ASEAN member countries. In addition to the usual monitoring of exchange rates and macroeconomic aggregates, the ASP monitors sectoral and social policies. It also includes provisions for capacity building, institutional strengthening, and sharing of information. The ASEAN Finance Ministers meet twice a year for policy coordination under the ASP.

The Asian Development Bank supports this process by preparing the *ASEAN Economic Outlook* reports and special issue studies. In addition, the Bank has programmed a number of regional technical assistance projects to be implemented by the Regional Economic Monitoring Unit (REMU) in support of the ASP.[17] These projects will provide inputs to the ASEAN Surveillance Reports, conduct studies on

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[16] The 14 member economies are Australia, Brunei Darussalam, Canada, China, Hong Kong SAR, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and the United States.

[17] The Regional Economic Monitoring Unit (REMU) was established in early 1999 to allow developing member countries to harness the full benefits of global financial integration while minimizing disruptive effects. REMU's most important activities currently are providing support to the ASEAN and ASEAN+3 surveillance process and housing the Asia Recovery Information Center (ARIC). REMU also supports the Manila Framework Meeting and the Asia-Europe Finance Minister's Meeting by providing monitoring inputs.

specific topics, and strengthen the capacity of ASEAN officials and institutions on surveillance-related matters. REMU also supports the ASEAN+3 Surveillance Process at the request of the ASEAN+3 deputies during their meeting in Brunei Darussalam in March 2000.

Capacity building support is provided at three levels through training of officials from ASEAN central banks and finance ministries in methods of economic monitoring and surveillance at ADB; support for the activities of the ASEAN Surveillance Coordination Unit located in the ASEAN Secretariat in Jakarta; and support for the establishment of Surveillance Units in the Ministries of Finance (so far in Cambodia, Indonesia, Lao PDR, the Philippines, Thailand, and Vietnam).

A distinguished feature of the ASEAN Surveillance Process is that there is no fact-finding mission to member states like the IMF's Article IV consultation mission. Instead, finance and central bank officials who are focal points for the ASEAN Surveillance Process directly provide information on their latest economic and financial situations to the ASEAN Surveillance Coordinating Unit (ASCU). Based on this information, ASCU performs an analysis of the latest economic and financial development in ASEAN while taking into account global development that could have implications on the region's economies. Outcomes of such analyses are highlighted in a report initially prepared by the ASCU. This report, currently called the ASEAN Surveillance Report, is reviewed and finalized by the ASEAN Finance and Central Bank Deputies before it is tabled for discussion by the ASEAN Finance Ministers during their peer review.

Under its current structure, the ASEAN Surveillance Process can be viewed as a regional risk management or crisis prevention tool comprised of two essential elements. The first element is a monitoring system that allows early detection of any irregular movement of key economic and financial indicators while the second element has to do with how policies are formulated to address issues emerging from the monitoring exercise. This second element is generally called a peer review. It basically involves an exchange of views and discussion and joint formulation of policy responses to any emerging issues. To ensure the high quality of the policy recommendations through the peer review process, regional and international experts are usually engaged to conduct a technical study with a view towards making policy recommendations to the finance ministers.

The ASEAN+3 group was formalized in Manila in November 1999. Monitoring exercises performed under the ASEAN Surveillance Process have been expanded to involve China, Japan and South Korea. The first peer review meeting under the ASEAN+3 Surveillance Process was held in May 2000 on the sidelines of ADB's Annual Meeting. Currently, the ASEAN+3 Surveillance Process is similar to the ASEAN Surveillance Process. However, as the CMI develops into a source of financial facilities that are more independent from the IMF, the ASEAN+3 Surveillance Process needs to be strengthened beyond the peer review process. While this may seem to depart from the policy of non-interference in domestic affairs, increasingly ASEAN+3 policy makers have come to grips with the necessity of constructive engagement (UN ESCAP, 2000).

V. Future Challenges

1. Clear Specification of the Objectives

The structure of necessary surveillance mechanisms depends on the objectives of the policy dialogue group concerned. A higher degree of economic and monetary integration generally requires a more intensive surveillance mechanism. In this regard, it should be understood that the policy dialogue process is evolutionary as European experiences vividly show. Both intensive and extensive cooperation cannot be carried out in a vacuum unless the expected benefits would be great enough to induce the support of all participating countries. Only rhetoric would prevail in a policy dialogue without concrete agenda for action and visible outcomes. For this reason, an effective surveillance mechanism should presuppose well-defined objectives and ensure sufficient benefits for cooperation.

The envisioned objectives of the surveillance mechanism in East Asia are:

- prevention of the future financial and currency crises and
- implementation of further common policy objectives.

At present, the East Asian countries broadly share a sense of financial cooperation. To complement the CMI, the ASEAN+3 policy dialogue group feels it critical for the region to enhance the policy dialogue process. Better monitoring and surveillance could help in identifying emerging issues and potential problems, and thus enable countries to take prompt corrective actions at the national level or jointly at the regional level if necessary. As often observed in the IMF's surveillance process, the symptoms of the crises and economic vulnerabilities have not been effectively captured. Regional initiatives could complement the IMF's surveillance process in the sense that the economies in the region have become much more interdependent through trade and financial channels over the last decade. Precisely because spillover effects in the region are insidious, there is a pressing need to engage in regional monitoring and surveillance (UN ESCAP, 2000).

Although regional surveillance initiatives provide a potentially meaningful and substantive value-added contribution to existing multilateral and other mechanisms, East Asian countries do not yet have other specified common policy objectives. Crisis prevention is rather ambiguous as a policy objective for surveillance. Surveillance mechanisms should come along with other pillars of monetary and financial cooperation. As the CMI further develops and other initiatives such as exchange rate coordination emerge, the objectives of concomitant surveillance mechanisms will be more clearly spelled out. The policy dialogue process through peer review will be a good starting point, but it does not operate in a vacuum. The next main issue is to identify the appropriate modalities and design the necessary instruments, techniques, and institutions as well.

2. Construction of a Surveillance Mechanism

A surveillance mechanism in East Asia could be constructed in the following three stages:

- Stage I: Building a regular policy dialogue framework. Member countries should introduce a system for information sharing and enhance the transparency of domestic economic policies through a peer review process. No independent surveillance unit is required to serve as a secretariat. Existing multilateral and other regional initiatives will be mutually reinforcing the surveillance function, but common policy objectives need not to be specified in detail. Advanced countries in the region or the ADB can provide technical assistance for capacity building.

- Stage II: Introduction of an integrated policy dialogue mechanism. An independent unit is established to serve as a secretariat to lead the policy dialogue mechanism in the region. This unit conducts independent surveillance activities of the highest quality like the IMF, but missions should be differentiated to avoid the duplication of the IMF's Article IV bilateral surveillance. Regional surveillance should focus on more region-specific purposes such as developing a region-wide early warning system. However, this kind of more structured surveillance mechanism also needs to clearly specify the enforcement mechanism when a conflict takes place between individual interests and common interests in the group. Peer pressure or moral suasion may not work due to political constraints that prevent an early warning from being heeded. A political obstacle can lead to policy inertia until a crisis is actually triggered (UN ESCAP, 2000).

- Stage III. Monetary integration and strengthened surveillance process. East Asians presently appear to pursue financial cooperation in the absence of exchange rate coordination. It is not yet clear whether East Asia will emulate the European experience by adopting some form of monetary integration. However, if East Asia starts monetary integration someday in the future, the regional surveillance mechanism should be structured and managed in order to support the coordinated exchange rate mechanism.

3. The Chiang Mai Initiative and the Surveillance Mechanism

The CMI does not need to design its own conditionality, because it is tightly related to the IMF. However, it does not mean that the CMI does not need to put its own surveillance function in place. First, under the CMI framework, 10 percent of the swap arrangements can be disbursed without Fund involvement. When swap-providing countries jointly decide to disburse the 10 percent, they need their own surveillance over a swap-requesting country. The 10 percent are not automatically disbursed, but by the consent of swap-providing countries. In this regard, regular monitoring and surveillance process should provide a source of information for assessing the situation of the country in trouble. Second, the CMI will need to develop an independent regional surveillance mechanism for preventing potential crises in East Asia. The region-wide contagion and policy spillovers could be focal issues to be thoroughly examined by a regional surveillance unit. As the CMI moves forward beyond the current framework, a more comprehensive surveillance mechanism should come along with deeper economic and monetary integration.

4. Forming a Core Group for Integration

Historically, international economic integration has not been led by economic motives but by political ones. The discussion for European economic integration was sparked by the political ambitions of politicians after World War II. It was German chancellor Helmut Schmidt and French president Giscard d'Estaing who accelerated the stalled integration process at the end of the 1970s. The joint initiative of Chancellor Helmut Kohl and President François Mitterand resulted in a great leap towards EMU in the beginning of the 1990s. France and Germany have become the core for the integration process in Europe as it was the political will of these two countries that motivated further integration.

In the Asian region there is no core country to lead the economic and monetary integration yet. Japan is economically strong enough to take the initiative for integration but politically, its representation is too weak. China behaves as if it has the political vision for economic integration but its political will is not matched by its economic power . Korea is not strong enough economically or politically to lead the economic integration process alone. It could take some time to form a core group for integration.

5. Preparing for a Long-Term Vision

East Asian Vision Group (EAVG) submitted its Report to the Leaders of ASEAN+3 in Brunei on November 5, 2001. In this document, the 26 Vision Group members propose that East Asian governments adopt a staged, two-track approach towards greater financial integration: one track for establishing a self-help financing arrangement and the other for coordinating a suitable exchange rate mechanism among countries in the region. As regards regional financial arrangements, the Vision Group proposes that a full-fledged regional financing facility such as the East Asian Arrangements to Borrow or an East Asian Monetary Fund be established in the future. It is not yet known whether the leaders and finance ministers of ASEAN+3 will be able to reach a consensus to explore new instruments and techniques beyond the CMI. However, it is worthwhile to note that European monetary integration was also evolutionary. Wyplosz (2001) explains that although exchange rate stability has been viewed as the lynchpin of efforts to achieve trade integration, there has never been any detailed master plan, nor any set deadlines.

At its inception, the European Community almost completely dismissed the idea of monetary cooperation as a regional project although the European Payments Union (EPU), which was set up in 1950, could be credited for having contributed to the resumption of intra-European trade. No serious consideration was given to regional exchange rate mechanisms simply because the Bretton Woods system could provide stability for the European currencies. As the Bretton Woods system collapsed during 1971-73, the Werner Plan was completed in 1970 and endorsed by the Council of Ministers in 1971. The Werner Report had recommended the rapid adoption of a single currency. However, not surprisingly, the Plan was deemed wholly unrealistic, and was immediately scuttled. As late as 1988, when the idea of a monetary union resurfaced, it was widely met with the same skepticism. It took an exceptional event, the collapse of the Berlin Wall, to trigger a serious reassessment that no political leader would have predicted just a few weeks earlier. Even the celebrated countdown to monetary union, with a terminal date set in concrete, was only accepted in Maastricht at the last minute (Wyplosz 2001, p.15). Wyplosz concludes that the number one lesson offered by the European experience is that what matters most in seeking economic and financial integration is a political will.

For over a half century, European countries have worked very hard to develop a wider web of political and diplomatic agreements which encouraged their cooperation on monetary and financial matters. Certainly, such a web does not exist in East Asia. In the sense that the political preconditions for monetary unification are not in place, Eichengreen (1997, 2000) has a point. If the European experience is any guide, East Asia may take many years to develop effective cooperative arrangements and institutions. However, some observers also note that East Asia may be on the brink of a historical evolution, as Europe was half a century ago (see Bergsten 2000, Dieter 2001). Having suffered such a painful and costly financial crisis, the East Asian countries seem to be prepared to set aside their differences and work together to develop a region-wide self-help system against future crises.

East Asian governments hold divergent preferences with respect to the pace, extent and direction of regional financial cooperation. This is mainly due to the fact that East Asian economic systems, patterns of trade and levels of economic development are far more diverse than those manifest in the European Community. Although political willingness could be the most important trigger as shown in the case of Europe, it would not be conceivable in Asia without a smooth convergence of the economic attainment level. In this regard, East Asia has a long way to go before putting into effect the Chiang Mai Initiative and launching other types of regional financial arrangements. At this critical juncture, however, East Asia (should be careful not to miss an important opportunity if regional financial arrangements are deemed ultimately desirable in the long run.

East Asian countries should first begin by drawing a long-term vision if they are interested in the economic and monetary integration of the region. The long-term vision should contain the end-goal, the way to reach this goal, and the tasks involved in each step. To this end, a working group should be nominated to prepare for the long-term vision drawn out by a group of political leaders in the region. Ideally, the working group should consist of specialists from diverse Asian countries, especially from major countries like China, Japan, and Korea.

6. Building Institutional Arrangements

The Council of Ministers and the European Parliament are relatively classic institutions. However, these institutions have not been free from political pressures of the national authorities. Much of the driving force behind European economic integration has come from more novel institutions, namely the Commission and the European Monetary Institute (EMI). The Commission has served as an independent source of policy, being often at the forefront of the integration drive (Dixon, 2000). Its role has been to propose new common initiatives independent of political authorities, while serving frequently as the honest broker between conflicting national interests. By having the sole right of initiative in common policy areas, it has been able to present proposals that aim to transcend national interests to advance the common interest.

The EMI was established as a temporary institution to facilitate the transitional process towards a common monetary policy, and as a precursor to the European Central Bank (ECB), sought to coordinate national monetary policies until the ECB was finally put in place. The EMI has eight sub-committees studying the following subjects (Apel 1998, p. 124):

- instruments (required reserves, open market operations, standing credit facilities) and procedures (centralization versus decentralization) for conducting a single monetary policy and the transmission mechanisms of monetary policy in member states;

- the functioning of the ERM and the development of the private ECU;
- banking supervision regarding prudential issues;
- harmonization of monetary and banking statistics;
- clearing and settlement systems;
- the design, manufacture and distribution of the euro banknote;
- the implementation of a technical strategy for information and communications systems for the European System of Central Banks (ESCB), the future European Central Bank;
- harmonization of accounting rules and standards in the ESCB.

Both the Commission and EMI have played a role as facilitators to promote economic and monetary integration. However useful, these relatively novel institutions have remained small. Their role and status rested on the specific agreements between member states. In contrast, East Asian countries do not have politically independent institutions that are responsible for regional economic integration. Once new politically independent institutions are introduced in East Asia along with official policy dialogue channels, they will have their own human resources and will provide valuable input in paving the road to economic and monetary union in East Asia. These institutions will be able to follow up on the decisions of politicians on integration and advance common policy objectives and related modalities more adequately by adding their own creative input to the policy dialogue group.

As proposed in Park and Wang (2000b), an independent monitoring and surveillance unit can be established to provide prompt and relevant information to a policy dialogue group. Its monitoring activities should cover (1) macroeconomic trends and policy changes in the region, (2) financial market developments, and (3) institutional changes. This unit should also develop a surveillance mechanism to enforce (1) implementation of common standards as agreed upon by all members, (2) policy changes and reforms required of those countries in need (particularly swap-receiving countries under the CMI framework), and (3) economic policy coordination as agreed upon by all members. The ASEAN Surveillance Process and ASEAN+3 Surveillance Process would complement each other. However, both processes must be more structured or merged into a unified process.

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국문요약

동아시아 경제정책 감독체제의 강화

동아시아 금융위기 이후 역내 금융협력의 필요성이 더욱 강조되고 있다. 금융의 국제화에 따른 각국 금융시장의 연계성이 증대되면서 금융 및 거시경제정책의 국제협력이 더욱 필요해졌다. 특히 역내 국가간 상호관련성의 증가로 인한 부정적 외부효과의 파급은 역내 금융협력의 필요성에 대한 논리적 기초를 제공하고 있다.

지역금융협력을 위해 선행되어야 할 가장 중요한 전제조건은 조사와 감독(monitoring and surveillance)**기능의 제도화이다. 조사**(monitoring)**는 참가국 상호간에 필요한 정보를 공유하기 위한 것을 의미하며, 감독**(surveillance)**은 참가국들이 상호 합의된 사항을 이행하는 지의 여부를 감시하고 합의를 준수하도록 통제하는 기능이다. 따라서 정확한 조사업무는 감독을 성공적으로 수행하기 위한 전제이며 또한 그 일부가 되기도 한다.**

동아시아는 ASEAN+3 **차원에서 유동성 지원장치로 쌍무적 스왑협정의 체결을 진행 중이다. 그러나 이러한 스왑협정은 매우 낮은 수준의 금융협력이라고 평가된다. 물론 동아시아 국가들이 금융협력에 대한 논의를 시작하게 된 것은 외환위기 이후부터이며, 이러한 점을 감안할 때 동아시아 국가들은 매우 성공적인 출발을 보이고 있다고 평가할 수도 있다. 즉** ASEAN+3 **차원의 치앙마이 구상은 향후 동아시아 국가들이 금융협력을 확대해갈 수 있는 시발점으로서 큰 의미를 지닌다고 볼 수 있다. 그러나 유동성 지원장치와 더불어 초기단계부터 조사 및 감독기능의 강화가 필요하다. 따라서 본 연구는 동아시아에서 현존하는 다자간 역내금융협력을 위한 정책대화 및 감독제도를 비판적으로 고찰하고 이를 강화하기 위한 방안을 모색하는 것을 목적으로 하고 있다.**

이를 위해 우선적으로 감독제도의 논리적 근거를 제시하고 그 기능을 세부적으로 설명하고 있다. 일반적으로 감독기능은 금융협력의 정도에 따라 달라질 수 밖에 없다. 지역금융협력에서 가장 기초가 되는 것은 조사기능의 제도화와 이를 근거로 한 조기경보시스템의 도입이다. 조사과정에서는 거시경제상황 변화, 국제자본이동을 포함한 금융시장의 변화, 그리고 각국의 제도 및 정책의 변화를 관찰하고 조사하게 된다. 이를 토대로 조기경보시스템을 개발하여 적기에 금융위기의 발생을 예방하거나 그 전파를 방지하게 된다. 그러나 이러한 조기경보시스템이 제대로 기능하기 위해서는 자료의 신뢰성이 확보되어야 한다. 또한 금융위기의 신호를 사전적으로 적절히 포착할 수 있는 적합한 지수의 개발이 필요하다. 그리고 취합된 정보를 근거로 역내 국

가들이 상호 합의한 사항들을 준수하는 지 그 여부를 판단할 수 있어야 한다. 합의사항을 준수하지 않는 국가에 대해 국제협력에서 가장 일반적으로 사용하는 제재수단은 동료압력(peer pressure)이다. 일반적으로 유동성지원과 관련된 사안에 대해서는 조건부지원이라는 제재수단을 사용할 수 있으나 환율협력과 같은 공동정책에 대해서는 인센티브를 활용한 동료압력이 더 유용한 수단으로 간주된다.

유럽의 경험을 살펴보면 1950년의 유럽지불동맹(EPU)으로부터 2002년 유럽화폐통합(EMU)에 이르기까지 그 추구하는 목표와 조사 및 감독기능이 모두 변화되어 왔음을 볼 수 있다. 유럽의 경험에서 시사하는 바를 정리하면 다음과 같다: 첫째, 금융협력의 목표 설정이 명확해야 한다. 둘째, 감독기능을 수행할 기관이 명확히 정해져야 한다. 셋째, 지역협력체가 감독기능을 수행할 수 있는 능력을 갖춘 독자기구를 가지고 있어야 한다. 넷째, 감독기능은 지역통합의 정도와 병행하여 발전하여야 한다. 다섯째, 참가국 모두가 행정적 협력의무를 져야 한다.

현재 치앙마이 구상은 IMF에 긴밀히 연관되어 있다. 즉 쌍무적 스왑협정이 독자적으로 운영되는 것이 아니라 대부분이 IMF의 자금지원과 연계되어 있고 독자적인 유동성지원조건을 설정하기보다는 IMF의 자금이행조건을 받아들이고 있다. 그러나 이러한 점이 동아시아 국가들에 있어서 독자적인 감독체제 도입의 필요성을 부정하는 것은 아니다. 역내 감독체제의 강화는 쌍무적 스왑협정의 조기발동에 있어서 필수적일 뿐만 아니라 향후 금융협력을 선도할 수 있는 정책과제를 발굴함에 있어서도 중요하다. 즉 단순한 감독체제가 아니라 정책대화기구의 상설화를 통해 동아시아 금융협력이 한단계 고도화되는데 기여할 수 있을 것이다. 이러한 차원에서 ASEAN+3 협의체는 동아시아 금융협력의 중요한 축으로서 역내감독체제의 강화를 모색하고 있다.

역내감독기능의 강화를 위해서 ASEAN+3 협의체는 우선적으로 감독체제가 추구하는 목표를 구체화하여야 한다. 또한 감독체제의 제도화가 필요하다. 여기서 제도화란 현재 정부간 협의체의 수준을 넘어서 독자적으로 정보수집 및 정책감독기능을 수행할 수 있는 기구의 설립을 의미한다. 아울러 동 기구는 향후 금융협력을 선도할 수 있는 비젼을 제시함과 동시에 과제발굴을 통해 보다 고도화된 금융협력 및 통화협력으로 이행해 가는 준비를 담당해야 할 것이다.

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