Rekindling the Asian Monetary Fund Idea
By

Mohamed Ariff

East Asia is in the throes of another economic crisis barely a decade after the financial turmoil of 1997-98. The difference this time is that the crisis is not homegrown.

There is certainly a need for an overhaul of the international monetary system, but one no can realistically expect major changes in the international financial architecture in the near term. Hence the need for regional financial safety nets while the region awaits a new international monetary system.

Japan's ill-fated AMF (Asian Monetary Fund) proposal by Japan, in the wake of the 1997-98 Asian financial crisis, an idea coyly shunned by China and brutally shot down by the United States. The currently unfolding global economic crisis makes it imperative to revisit this proposal.

Why do we need AMF while the IMF (International Monetary Fund) is already playing a dominant role? The primary function of the IMF is to provide liquidity to member countries facing balance-of-payments (BOP) shortfalls, lest they resort to restrictive, beggar-thy-neighbour trade practices. Thus, for instance, the IMF had come to the help of primary exporters whenever commodity prices slumped.

Dealing with financial crises caused by structural problems is far more difficult. Structural problems persist longer and require greater resources than cyclical problems. The deep involvement of the IMF in the financial crises of Latin America, Mexico, Russia and East Asia is instructive.

The IMF resources are not unlimited. It can play a "fire-fighting" role if fire breaks out in isolation. Problems can arise if fires break out simultaneously in a number of countries, in which case the IMF would have to spread its resources thinly, now that membership has grown from 44 countries in the beginning to nearly 200.

Therein lies an argument for the pooling of regional resources, which can reinforce IMF efforts when the crunch comes. A regional facility can help close the gap left by multilateral organisations, including the World Bank, Asian Development Bank (ADB) and the IMF. In any case, the World Bank and the ADB have been playing only a modest role in crisis management. The IMF share of multilateral crisis lending has ranged from about 63 per cent for Thailand to 100 per cent for Mexico.

Seen in these terms, the proposed AMF should complement and supplement, not duplicate or substitute, the IMF. This calls for cooperation and coordination between the

IMF and AMF, in which case the fear of the latter undermining the former will not arise. After all, the establishment of regional development banks such as the ADB has not rendered the World Bank irrelevant.

To be sure, there is much more to the IMF than mere "fire-fighting". It has to identify the causes and prescribe solutions. In recent times, much IMF-bashing has centred on its prescriptions, which are seen as standard measures for all countries.

In particular, "one-size-fits-all" macroeconomic packages, especially tight budgets and high interest rates, have triggered many criticisms, as they tend to exacerbate the pain in the besieged economy through further contraction. Perhaps this is tacitly meant to exert pressure on the political will so as to bring about serious structural reforms.

Still, there is a lot of support for the IMF's agenda for structural reforms in the crisis-hit countries. Recipients of IMF assistance may resent the imposition of conditions, but there is a need for mechanisms to ensure that IMF funds are not misused to bail out politically connected individuals and companies.

The main problem is that the conditionality may deliver nothing at the end of the day. Regimes under extreme pressures would agree to anything, reluctantly, but fail to act. If IMF policies do not work, it may not be because they are wrong, but externally imposed, not homegrown.

It is imperative for a multilateral institution to first convince national policy makers of the need for change and then arrive at solutions through consultations, giving the entire process a bottom-up rather than top-down flavour.

Much has also to do with howthe IMF imposes its will on the recipients of financial help. The heavy-handedness of IMF negotiators tends to demoralise policymakers. Regimes that receive IMF help often suffer a loss of face, which tends to weaken the power base that has to be strong enough to deliver the reforms in the first place.

It is believed that a regional organisation like the porosed AMF would be more attuned to the sensitivities and idiosyncrasies of the regional economies. This does not mean that an AMF would have to do away with conditionality, for it will have to ensure that the funds are used for their intended purpose, with transparency and accountability.

There is a need for a clear distinction between stabilising and restructuring activities. The IMF seems to be preoccupied with the latter rather than the former. Economies experiencing turbulence need to be stabilised before meaningful reforms and restructuring can be initiated. The proposed regional fund can complement the IMF by prioritising stabilisation.

Admittedly, it is difficult, in practice, to be precise about where stabilisation ends and restructuring begins. Nevertheless, external assistance to finance budget and current account deficits during crises constitutes stabilisation, as it would represent relief measures. These deficits will have to be removed subsequently through restructuring.

There is no better way for the East Asian economies to minimise the adverse effects of external downturns than to have an integrated regional market with substantial intra-regional trade and investment linkages. It is in this wider context that AMF makes sense as a centerpiece of the regional institutional structure. East Asia is better equipped for it now than it was a decade ago, given its external reserves of roughly US$3 trillion (RM10 trillion).

All indications are that the current global economic downturn will last more than two years, during which East Asia will remain very vulnerable. No East Asian economy can afford to go it alone, underscoring the need for regional solutions, which must include a regional monetary arrangement. The time is ripe for another shot at the AMF idea.

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