Note on Chiang Mai Initiative Multilateralization (CMIM)[*]

by

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For Panel on "Regional Schemes"

In spite of the Chiang Mai Initiative (CMI) not playing any role to help countries with foreign exchange liquidity problems during the global financial crisis, ASEAN+3 still pushed ahead with the Chiang Mai Initiative Multilateralization (CMIM). This is likely to be from the realization that a regional liquidity support mechanism can be made to work and the institution building involved will yield benefits far beyond simply providing liquidity support in the longer term. Negotiations to finalize the CMIM were not straight forward, particularly on country contributions and voting weights. However, these were mostly concluded by May 2009 with some final revisions in 2010. The CMIM came into effect and replaced the CMI on 24 March 2010.[1] The country contributions, purchasing multiples,[2] voting weights and decision rules are given in Table 1.

Given that the IMF link in the CMI made that mechanism irrelevant during the global financial crisis, this issue needs to be resolved before the CMIM can become useful for the region. However, it seems that this issue is now easier to resolve than a few years ago. With experiences from the 1997/98 crisis as well as from the foreign exchange liquidity shortages that developed during the global financial crisis, countries in the region have learned a lot. It is most unlikely that any East Asian country (except may be the least developed ones) will get to an insolvent position regarding foreign exchanges and therefore require serious conditionality on adjustment programs. Fear of depreciation, which was behind the 1997 Thai crisis, has been replaced by fear of appreciation. Concerns over lack of foreign reserves have been replaced by concerns over too much reserve. Therefore, any liquidity problems in the future regarding foreign exchanges are likely to be almost exclusively short-term liquidity problems not requiring significant changes in macroeconomic policy. Main adjustments are likely to be through temporary depreciation. And experiences in East Asia show that with depreciation and given the export-led growth model of East Asia, the foreign exchange position of East Asian economies can turn around fairly quickly.

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[*] Note for the conference on "Reforming the Global Monetary System", Beijing, March 18-19, 2011. This is part of a paper on "Post-Crisis Financial and Monetary Cooperation in East Asia: Southeast Asian Perspectives" by Chalongphob Sussangkarn and Worapot Manupipatpong to appear in a forthcoming book on Financial Development and Integration in East Asia.

[1] However, the ASEAN Swap Arrangement components of the CMI remain in force.

[2] A country's contribution times its purchasing multiple equals the maximum amount that it can draw from the CMIM.

Table 1: CMIM Contributions, Purchasing Multiplier, Voting Rules and Weights

Country	Contribution (US$ Billion)		Purchasing Multiple	Voting Weight
Brunei	0.03		5.0	1.158%
Cambodia	0.12		5.0	1.222%
PRC	38.4	PRC , Excluding Hong Kong, China 34.2	0.5	25.430%
		Hong Kong, China 4.2	2.5	2.980%
Indonesia	4.552		2.5	4.369%
Japan	38.4		0.5	28.410%
Korea	19.2		1.0	14.770%
Lao PDR	0.03		5.0	1.158%
Malaysia	4.552		2.5	4.369%
Myanmar	0.06		5.0	1.179%
Philippines	4.552		2.5	4.369%
Singapore	4.552		2.5	4.369%
Thailand	4.552		2.5	4.369%
Viet Nam	1.00		5.0	1.847%

	Issues	Rule of Decision Making
Fundamental Issues	Review (size, contribution and borrowing multiples. Re-admission, Membership, Terms of Lending etc.	Consensus
Lending Issues	Lending, Renewal, Default	2/3 Weighted Majority

Source: The Joint Ministerial Statement of The 13th ASEAN+3 Finance Ministers' Meeting, Tashkent, Uzbekistan, 2 May 2010

The CMIM is a short-term (90 days) swap facility, so it is designed for temporary liquidity shortages such as arose during the recent financial crisis. When a country requests a swap with CMIM for the first time for 90 days, attaching conditionality, which would almost in all cases have impacts beyond 90 days does not make much sense. Therefore, keeping the IMF link in its present form, i.e. if the swap is more than 20% of the borrowing quota of a country, makes no sense and should be removed. This is particularly necessary given the issue of stigma; otherwise the CMIM will be completely useless.

If there is still to be a link to the IMF, it may be when it becomes apparent that the situation is not a liquidity problem but rather an insolvency problem (even though this may be rare). So instead of having a link to the IMF if the swap is greater than a certain percentage of the quota, the link may be invoked if the needed rollover exceeds a certain number of times. At present CMIM swap can be rolled over a maximum of 7 times. May be the first 3 rollovers (about a year in all including the first swap) should be unlinked to the IMF, but for the 4th rollover, which may signal an insolvency situation rather than a liquidity situation, the IMF can then be brought into the picture. In fact, the threat of bringing the IMF into the picture after about a year may actually stimulate the country using the swap to seriously carry out needed adjustment policies in order to avoid having to deal with the IMF!

If a country's liquidity problem persists through a couple of rollovers, the issue of conditionality will arise (possible conditionality is part of the CMIM agreement). Here, the current voting weights may need to be adjusted. The decision rule is 2/3 weighted majority. Presently, the Plus 3 countries have 71.59% of the votes (each country gets 1.6 basic votes plus contribution votes equal to how many billions of US$ it contributed to the CMIM pool). Allowing the Plus 3 countries to push through conditionality or other issues requiring weighted majority vote by themselves may create frictions with ASEAN countries. It would be better if the total voting weight of the Plus 3 becomes less than 2/3. This could be done, for example, by increasing the basic votes to 5 for each country. In this case, the voting weights of the Plus 3 would become exactly 60%.

Once the ASEAN+3 Macroeconomic and Research Office (AMRO), the regional surveillance organization to support the CMIM, is established in 2011, the IMF link in its present form should be ended and replaced by something similar to that suggested above if the link is still to be maintained. AMRO will have to work closely with the ADB, who provides technical inputs into the Economic Review and Policy Dialogue (ERPD) of the ASEAN+3 Finance Minister process. The IMF can also provide capacity building and technical support to AMRO if requested. AMRO should also have good working contacts with other relevant agencies, such as the BIS, the World Bank and the ASEAN Secretariat.