

Regional Cooperation crucial in the Midst of Global Crisis

Nithiwadee Soontornpoch

Senior Economist

International Economics Department

Monetary Policy Group

The economic crisis in Greece and fears of possible contagion through Southern Europe have made managing the implications of globalisation more challenging.

Although Asian economies have limited exposure to Greek debt and should be able to weather this potential storm relatively well, it is important for Asian policymakers to enhance policy coordination, expand economic information sharing and deepen financial cooperation. In addition, authorities need to be equipped with tools for managing greater volatilities to help economies withstand external shocks.

The establishment of the Chiang Mai Initiative Multilateralisation (CMIM) by Asean+3 is one of the most concrete regional arrangements to promote economic and financial stability, in terms of a financial support mechanism to address short-term liquidity shortfalls and balance of payment difficulties. In fact, after stepping up efforts to multilateralise the Chiang Mai Initiative (CMI) in the wake of the global financial crisis in late 2008, the total size of the CMIM was increased from US\$80 billion to \$120 billion (Bt2.58 trillion to Bt3.87 trillion) and its establishment accelerated.

The CMIM is an improvement on the former network of the bilateral swap arrangements (BSAs) in many important aspects. Its objective is to ensure sufficient resources and quick disbursement of liquidity in time of reserve shortfalls and balance of payment difficulties.

The CMIM's reserve pooling is flexible and contributions to the pool are made in the form of commitment letters, as the central banks of member countries continue to manage their own reserves. The liquidity support is transferred to the requesting country only when a request for help has been made and approved. Therefore, the implementation of the CMIM does not result in immediate depletion of members'

foreign-currency reserves, yet certainty of funding is still ensured. The requesting member will acquire US\$ liquidity through a 90-day swap transaction with its local currency, which can be rolled over up to seven times, or approximately two years.

In addition, to allow effective and prompt disbursement, the CMIM has to be supported by a surveillance mechanism that can detect weakness early on as well as provide sufficient information and credible analysis for decision-making. As the region moves toward greater financial integration, it is likely to see increasing interdependency among Asian countries, and intensifying systemic linkages.

Therefore, close monitoring of risks and formulation of strategies to deal with emerging vulnerabilities become critical.

Indeed, the region's resolution to set up an Asean+3 Macroeconomic Research Office (AMRO) that truly comprehends the uniqueness of this region's economic conditions is the key to ensuring effective regional crisis prevention and management mechanisms. It demonstrates the firm commitment and concerted efforts of Asean+3 members to further enhance regional capacity to maintain economic and financial stability and safeguard against downside risks in the global economy.

(The views expressed are the author's own.)

Published in The Nation on Tuesday, May 11, 2010