

REGIONAL ECONOMIC INTEGRATION IN EAST ASIA: CHIANG MAI INITIATIVE

Overview

The Chiang Mai Initiative (CMI) is a regional liquidity support facility through which the central banks of the 13 ASEAN+3 member countries agreed to make available lines of credit to each other in the event of a temporary balance of payments or liquidity crisis. An offshoot of the 1997/98 Asian financial crisis, the CMI was launched in recognition of the need to collaborate more cohesively, both as a buffer against the recurrence of a similar crisis as well as to meet the challenges posed by globalization and liberalization. The prevailing circumstances at that time underscored the need for a quick-response, cooperative financing arrangement that could supplement the International Monetary Fund (IMF) facility.

Framework of the CMI

The CMI comprises the ASEAN Swap Arrangement and a network of Bilateral Swap Arrangements, as follows:

- i. **ASEAN Swap Arrangement (ASA)** – launched in 1977 with a total facility of USD100 million, the ASA initially involved Indonesia, Malaysia, the Philippines, Thailand and Singapore. The ASA has since been expanded to include all ASEAN member countries, with a total sum of USD2 billion currently as members' disposal. A member country could request to swap its domestic currency for US dollar, yen or euro up to twice its committed amount and for up to six months. As a quick disbursement facility, drawdown from the ASA would be made within seven business days upon request to the designated Agent Bank managing the facility; and
- ii. **Bilateral Swap Arrangement (BSAs)** – the size of the swap arrangement under each agreement signed between ASEAN+3 member countries is determined through bilateral negotiations. A quick disbursement of up to 20.0% of the maximum drawdown would be allowed when the swap-providing country determines that the swap requesting country is facing a short-term liquidity problem. The balance will only be released once the swap requesting country is on an IMF programme. To date, 16 BSAs totaling USD80 billion have been signed involving eight member countries.

Recognising the importance of macroeconomic and financial surveillance in the early detection of systemic risks within the region, the CMI also provides for timely data exchanges and regular reviews. The biannual informal ASEAN+3 Finance and Central Bank Deputies Meeting continue to reinforce the exchange of information and encourage frank and candid discussions on regional issues. To further enhance the policy dialogue process, the following two groups were established;

- **Group of Experts** – this Group comprises several regional professional experts. It serves as an independent assessment vehicle of economic and financial vulnerabilities, particularly in the areas of macroeconomic policy, fiscal policy, monetary policy as well as trade and international finance; and
- **Technical Working Group on Economic and Financial Monitoring** – this Group assists in developing an early warning system to detect emerging risks as well as strengthening member countries' surveillance capacities and capabilities.

Next Steps

To further strengthen the CMI, the ASEAN+3 member countries have agreed to work toward an advanced framework to multilateralise the CMI. A Task Force has been set up to study the possible options and, as an initial step, will focus on establishing a self-managed reserve pooling arrangement governed by a single contractual agreement.

In conclusion, the advancement of the CMI framework reflects the strengthening of ASEAN+3 cooperation. Supported by enhanced macroeconomic surveillance and data exchanges among member countries, the multilateralisation of the CMI is expected to fulfill its objective of further augmenting financial stability and resilience in the East Asian region.