THE CHANGING POLITICAL DYNAMICS OF EAST ASIAN FINANCIAL COOPERATION

The Chiang Mai Initiative

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Abstract

This paper analyzes the factors that have contributed to the development of the Chiang Mai Initiative, one of the prominent examples of recent East Asian financial cooperation, by comparing it with the failed 1997 proposal for an Asian Monetary Fund.

Keywords: ASEAN Plus Three, Asian Monetary Fund, Asian regionalism, Chiang Mai Initiative, financial cooperation

East Asian economic cooperation has made substantial progress since the turning point of the 1997 Asian financial crisis. Prior to the crisis, economic integration in East Asia was led mainly by private business, while East Asian governments showed little serious interest in regional economic cooperation. As a result of weak government cooperation, the formal institutionalization of East Asian economic cooperation had lagged far behind regional cooperation in the rest of the world. Since

1. Paul Bowles, “Asia’s Post-Crisis Regionalism: Bringing the State Back in, Keeping the (United) States Out,” Review of International Political Economy 9:2 (May 2002), p. 245. For more on East Asian regionalism during the pre-crisis period, see, for example, Rosemary Asian Survey, Vol. 49, Issue 3, pp. 450–467, ISSN 0004-4687, electronic ISSN 1533-838X. © 2009 by The Regents of the University of California. All rights reserved. Please direct all requests for permission to photocopy or reproduce article content through the University of California Press’s Rights and Permissions website, at http://www.ucpressjournals.com/reprintInfo.asp. DOI: AS.2009.49.3.450.
the 1997 crisis, however, East Asian governments have been active in promoting regional economic cooperation, in particular in the area of finance. In December 1997, the Association of Southeast Asian Nations (ASEAN) and three northeast Asian countries—Japan, China, and South Korea—established the ASEAN+3, a forum for coordinating cooperation among the participant countries, which they institutionalized in 1999. Under the ASEAN+3 framework, member countries have conducted annual economic reviews and policy dialogues, promoted regional bond market development through the Asian Bond Markets Initiative, and established a research group to study ways of strengthening financial cooperation and enhancing financial stability. Central banks in the region have also facilitated development of regional bond markets by establishing two Asian Bond Funds.

At the center of East Asian financial cooperation lies the Chiang Mai Initiative (CMI). The CMI refers to a network of bilateral swap arrangements (hereafter BSAs) created by ASEAN+3 countries in May 2000 to provide short-term liquidity assistance. When the CMI was first established,
there was strong criticism that it would be ineffective, largely because of its bilateral nature and the small size of the BSAs (a total of US$36.5 billion). Through the mid-2000s, however, the CMI has evolved. It has now adopted a collective decision-making procedure for swap activation, while the total volume of its BSAs has grown to $90 billion (as of April 2009). From May 2006, moreover, ASEAN+3 countries began to work on multilateralization of the CMI and have reached agreement on many of its key elements, including the total size ($120 billion), the form of funding (self-managed reserve pooling), the legal modality (legally binding single contractual agreement), and the proportion of contribution between ASEAN and the three Northeast Asian countries (20:80). If successful, multilateralization of the CMI is expected to lead East Asian financial cooperation into an unprecedented stage, the establishment of a de facto regional monetary fund.

What explains this progress in East Asian financial cooperation since the late 1990s? This paper attempts to answer that question by analyzing the factors that led to development of the CMI. In particular, this study compares CMI development with the failure of the 1997 proposal for an Asian Monetary Fund (AMF). This comparative analysis is appropriate, given that successful CMI multilateralization is likely to result in creation of a regional institution similar to an AMF. Examination of why two similar institutions for regional liquidity support adopted contrary paths can provide valuable insight into what factors influence the development of East Asian financial cooperation.

This study argues that the political dynamics of East Asian financial cooperation have changed since the 1997 financial crisis and are a key factor behind the development of the CMI. In particular, this research

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Henning, East Asian Financial Cooperation (Washington, D.C.: Institute for International Economics, October 2002), pp. 14–15. In this study, however, the term CMI mainly relates to the BSA network established under it.


6. Under the self-managed reserve pooling arrangement, each participating member contributes a certain amount of reserves to a “fund,” and members obtain claims on the fund in return. The fund then entrusts the reserve assets received back to their respective contributors for management, and income arising from these reserve assets accrue to the respective central banks.

7. During the post-crisis period, the deepening of regional economic integration in East Asia has not been very substantial. See David Cowen et al., Financial Integration in Asia: Recent Developments and Next Steps (Washington, D.C.: International Monetary Fund [IMF], August 2006). Thus, East Asian economic integration during the period is not likely to be a key factor that explains the recent development of East Asian financial cooperation.
demonstrates that (1) Japan has become more active in providing regional initiative, (2) China has become more willing to support East Asian financial cooperation, and (3) U.S. opposition to East Asian financial cooperation has lessened.

This paper is organized as follows. It first reviews the literature on East Asian regionalism with a focus on the issue of regional leadership. It then analyzes why the 1997 AMF proposal failed and, in the following section, explores why in contrast the CMI has developed successfully. In the final section, it discusses the prospects for further development of East Asian financial cooperation.

Leadership in East Asian Economic Cooperation

It is generally acknowledged that close regional economic cooperation requires strong political leadership, to foster coherence among member countries with divergent interests by mediating among them. Yet, a number of studies maintain that East Asia lacks such leadership. Much research also indicates that the influence of the U.S. in East Asia hinders the development of closer regional economic cooperation.

Given its economic power, Japan has been the most prominent candidate for regional leadership in East Asia. Despite its decade-long economic recession during the 1990s and early 2000s, Japan remains the regional economic superpower. However, Japan has been widely criticized for its reluctance to provide strong initiative for regional economic cooperation. Japan's failure to do so has been attributed to a diversity of factors, including its faltering economy, its unwillingness to shoulder the leadership burdens,

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its relationship with the U.S., and its government’s high sensitivity to inter-
est group pressures.10 This view of Japan as a “reactive state” remains strong
in analyses of recent East Asian economic cooperation.11 Moreover, Japan
has frequently been denounced for its reluctance to resolve historical ten-
sions with its East Asian neighbors, which reduces its ability to gain their
support for it to lead.

Meanwhile, a number of scholars assess China’s capability of providing
strong regional leadership as not yet sufficiently mature.12 Given its rapid
economic growth, huge population, historical legacy of regional influence,
and reintegration into the global economy, China does seem to have poten-
tial to lead East Asian economic cooperation. Nevertheless, there are at
present several problems with the idea of China exercising regional leader-
ship. Its economy has a long way to go to catch Japan’s. China’s transition
to a market economy is incomplete; by contrast, most of its East Asian
neighbors have had market-based economies for decades. As China has ex-
panded its economic and military strength, East Asian countries’ fears of
its dominance in the region have also grown.13 All of these factors make it
difficult to envision the emergence of China as the leader of East Asian
economic cooperation, at least in the near future.

Kuroda and Kawai, Strengthening Regional Financial Cooperation in East Asia, p. 12; Lincoln,
East Asian Economic Regionalism, pp. 232–39; Werner Pascha, “The Role of Regional Finan-
cial Arrangements and Monetary Integration in East Asia and Europe in Relations with the
Finance and Asian Regionalism,” p. 69.

11. In his seminal work on Japan’s foreign economic policy, Kent E. Calder characterized
Japan as a “reactive state,” indicating its failure to undertake major independent foreign eco-
nomic policy initiatives and its deferential response to outside pressures, in particular from the
United States. See Kent E. Calder, “Japanese Foreign Economic Policy Formation: Explain-
supporting this view include Calder, “Japan as a Post-Reactive State?”; Lincoln, East Asian
Asian Monetary Integration.” In counter to this traditional view of Japan’s foreign economic
policy, however, some scholars argue that Japan exercises “leadership from behind,” meaning
that it helps in development of innovative institutional options but eschews overt dominance
of multilateral forums. See, for example, Alan Rix, “Japan and the Region: Leading from Be-
hind,” in Pacific Economic Relations in the 1990s, ed. Richard Higgott, Richard Leaver, and

12. See, for example, Lincoln, East Asian Economic Regionalism, pp. 242–49; and Rhee,
“East Asian Monetary Integration,” p. 97.

for International Economics, March 2000), p. 10; Peter J. Katzenstein, “East Asia: Beyond
Japan,” in Beyond Japan, ed. Katzenstein and Shiraishi, pp. 2–3; and Lincoln, East Asian
Economic Regionalism, pp. 244–47.
There is also strong skepticism about the possibility of joint East Asian leadership emerging, in particular leadership by Japan and China. According to this perspective, most East Asian countries view one another as economic rivals rather than potential partners, and Japan and China are political rivals competing over regional leadership. The possibility of cooperation becomes even more doubtful considering Japan’s problems with its historical legacy, as well as its fears of growing Chinese economic and military power.

The influence of the U.S. in East Asia adds further complications to the issue of East Asian economic cooperation. The U.S. is a key actor in security affairs in the region. The U.S. is also critical as an end market for East Asian economies’ exports, and thus for their vitality, which makes it important that East Asian countries accommodate U.S. interests. The U.S. thus exercises a large influence in the region and, notably, has traditionally opposed development of multilateral regional frameworks, promoting instead its own bilateral relationships with East Asian countries. Furthermore, whenever its leadership has been challenged by movement toward “Asian” regionalism that excludes it, the U.S. has resisted strongly and effectively hindered development of regional economic cooperation.

The contrasts between the cases of the 1997 AMF proposal and the CMI, however, demonstrate that the traditional view of the political dynamics relevant to East Asian regionalism has recently become less applicable to the development of East Asian financial cooperation. The possibility of a regional hegemon emerging that can impose economic cooperation appears to remain low and may decline further if China continues to grow while Japan maintains its power. Hence, East Asian financial cooperation depends largely on whether the two regional powers can cooperate or exercise joint leadership. Notably, Japan and China have in fact since the late 1990s begun to do just this. Japan has become active in taking regional financial initiative, while China has begun to respond positively to some (albeit not all)

of them. In these novel circumstances, U.S. opposition to the development of East Asian financial cooperation has dwindled. The following sections explain in detail how and why these changes have emerged.

The 1997 Asian Monetary Fund Proposal

In mid-September 1997, in the wake of the Thai financial crisis, Japan put forward a proposal to establish a regional monetary fund—an AMF. The AMF was envisioned as a $100 billion fund participated in by 10 regional countries or entities (Japan, China, South Korea, Indonesia, Malaysia, Thailand, the Philippines, Hong Kong, Singapore, and Australia). The AMF proposal was significant in that its membership excluded the U.S. and that it would not necessarily act in harmony with the IMF.17 In other words, the AMF proposal was an attempt to build an “Asian” self-help mechanism, which could reshape the structure of international financial governance led by the IMF. However, the AMF proposal failed only two months after its emergence. Why did this happen?

Japan’s Initiative

The Japanese Ministry of Finance began pushing for establishment of an AMF in August 1997, immediately after the outbreak of the Thai financial crisis, sending high-ranking officials to other East Asian countries to discuss the idea. Japan also planned to provide half the funds necessary for the AMF creation.18 These efforts to establish the AMF contradicted both the view of Japan as a reactive state and the notion of its aversion to regional economic cooperation. Furthermore, the idea of excluding the U.S. from AMF membership was a significant change in Japan’s foreign economic policy, given that Japan had never tried to intentionally keep the U.S. out of an international institution in the postwar era.19

When Japan proposed creation of an AMF, it had the desire of expanding its influence and leadership in the region, a policy goal it has maintained even after the demise of the 1997 proposal. However, this motivation alone cannot fully explain Japan's exclusion of the U.S. from its proposed AMF.20

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18. Ibid., pp. 185–86; and “Ministry Withdraws Asian Monetary Fund Plan,” Japan Economic Newswire, November 10, 1997. In fact, Haruo Kuroda, then director general of the International Finance Bureau of the Ministry of Finance of Japan, had long cultivated the AMF idea privately, and he had many supporters in Japan. See ibid., p. 184.


Also behind the AMF proposal was Japan’s ideological interest in defending the Asian development model against the IMF’s neoliberal bailout programs. The IMF, along with Western countries such as the U.S., had asserted that the structural problems inherent in the Asian development model were the main cause of the crisis. Accordingly, IMF conditionality for bailout required strong economic restructuring on the part of crisis-hit countries. Japan, however, diagnosed the deregulation of capital accounts in those countries as the direct cause of the crisis. Japan also suspected the IMF bailout programs of being heavily influenced by U.S. intentions to topple the Asian development model, which Japan had been trying to promote. Ultimately, Japan proposed the AMF idea in order to create a policy alternative to the IMF prescription.21 This economic ideological schism between Japan and the Western countries has continued, and it has led Tokyo to continue pushing for an AMF even after the original proposal’s explicit demise.

It is of course also likely that Japan had more myopic interests related to its AMF proposal. The quick provision of liquidity for the crisis-hit countries through an AMF could have benefitted Japan. It had strong economic ties with those countries through bank loans, foreign direct investment, and trade, and a full-blown crisis could have seriously hurt many of its banks and firms.22 However, if such economic interests had been Japan’s sole motivation, it could have used the IMF. It should also be noted that many Japanese banks and firms were opposed to the AMF proposal.23 In addition, such myopic economic interests cannot explain why Japan has strongly supported the CMI, which it hopes will eventually develop into an AMF, even after economic recovery in the crisis-hit countries.

The Demise of the AMF Proposal
Japan’s AMF proposal died in November 1997, when Japan, the U.S., and 12 other Asia-Pacific countries agreed to create the Manila Framework, a forum for regional economic surveillance and crisis management. Under

21. Ibid.
23. Lee, “Japan and the Asian Monetary Fund,” pp. 346–50, 360; and Saori N. Katada, “The Purpose of Asian Monetary Regionalism: Japan Cultivating a Leadership after the Asian Financial Crisis,” paper presented at the 2nd International Political Symposium on “Japan and the Transformation of the International Order,” organized by the Institute of Social Science, University of Tokyo, and School of International Relations, Sophia University, Tokyo, June 20–22, 2002, p. 10. A number of Japanese banks were opposed to the AMF proposal, arguing that it could create a psychology of dependence in crisis-hit countries. Many Japanese firms, meanwhile, argued against the proposal because they regarded the crisis as a golden opportunity for further liberalization of Asian markets.
the Manila Framework, the size of the cooperative financing mechanism was only $20 billion; the mechanism had no institutional components, instead taking the form of a stand-by arrangement. The framework also lacked a regional orientation: it included the U.S. and was subordinated to the IMF.24

The failure of the AMF proposal was attributable, first of all, to strong opposition from the U.S., in tandem with the IMF.25 U.S. opposition was made superficially on the grounds that the AMF would duplicate the IMF and could cause moral hazard problems because its relief funds might be available without rigorous conditions such as those imposed by the IMF.26 However, the strong U.S. opposition to the AMF proposal appears to have had more fundamental reasons. The U.S. worried that the AMF could undercut its interests and influence in East Asia, partly because its establishment might lead to creation of a yen bloc, which would threaten U.S. dollar hegemony in the region and could undermine U.S. supremacy in managing future financial crises.27 Moreover, the AMF could be a powerful voice for international financial policies that were not inclined toward Western interests and ideas, creating a division between the Western-backed IMF and the Asian-backed AMF.28 The U.S. opposition to the AMF proposal was so strong that it gutted it, pushing East Asian countries into accepting the Manila Framework instead.29


25. In the case of the IMF, it initially supported the AMF proposal, but changed course to object to it later. The IMF’s official reasons for opposition to the AMF proposal were similar to those the United States presented. See “Ministry Withdraws Asian Monetary Fund Plan,” Japan Economic Newswire. However, there was speculation that the IMF’s opposition stemmed from its fears of the AMF being a direct threat to its authority. See “A Fund for Asia, by Asia,” Business Times (Kuala Lumpur), November 7, 1997.


28. Note that the United States became antagonistic to the AMF proposal only after it noticed its exclusion from the AMF and the possibility of fund operation independent of the IMF. See Sakakibara, Nihon to Sekai Ga Furueta Hi, pp. 186–87.

The fate of the AMF proposal might have been different if it had received strong support from other regional powers, especially China. However, China did not support the proposal, out of worries about an increase in Japanese regional influence. China perceived the AMF proposal as an attempt by Japan to assume regional leadership and to establish hegemony of the yen in the region, and Beijing did not wish to see that happen. At the time, China was more concerned about Japan becoming powerful than about the U.S. retaining economic supremacy in East Asia.

China’s traditional reluctance to participate in multilateral institutions should also be noted. The country had generally placed great emphasis on its own autonomy and independence, a key reason being its concern that in multilateral settings it could be outvoted and have its bargaining power decreased. Therefore, China maintained a minimalist and passive approach toward regional cooperation. In these circumstances, Japan made a critical mistake by not consulting with China about the AMF proposal, which raised Chinese suspicions about the plan. In addition to the Japanese diplomatic error, the U.S. also lobbied China to get it to oppose the plan, by emphasizing the threat of Japanese hegemony. In the end, without Chinese support the AMF plan could not overcome the strong U.S. opposition.

The Chiang Mai Initiative

The CMI basically shares with the proposed AMF the common objective of ensuring that liquidity assistance is available. Although the 1997 AMF proposal died quickly, the CMI has continued to evolve successfully. It is important to ask why. East Asian countries’ accumulations of huge amounts of foreign exchange reserves since the 1997 financial crisis may have helped the development of the CMI to some extent. Given that the CMI’s effectiveness in resolving crises has not actually been tested, and that an unresolved financial crisis in one country can spread throughout the region, it
is risky for a country to allocate a large part of its foreign exchange reserves for the CMI. In this situation, the fact that member countries need only allocate small portions of their foreign exchange reserves for their CMI commitments may have reduced such risk, making it easier for fund-providing countries to participate in the scheme. However, this economic analysis alone does not fully explain the successful development of the CMI. In particular, it remains questionable why East Asian countries—especially Japan and China—have worked to establish and develop the CMI when they had large amounts of foreign exchange reserves in their own hands. It is at this point that political economic explanations come to the fore.

**Emerging Cooperation between Japan and China**

Development of the CMI has derived largely from Sino-Japanese cooperation. Despite the humiliating defeat of its 1997 AMF proposal, Japan has spearheaded establishment of the CMI, expecting that it would in the end develop into an AMF. Japan has contracted BSAs with seven countries and is the biggest financial provider in the scheme, contributing $44 billion (as of April 2009). Moreover, with regard to the recent CMI multilateralization efforts, Japan supported centrally managed reserve pooling as the form of funding and a treaty as the legal modality, both of which would strengthen institutionalization of the multilateralized CMI.

The Japanese endeavors for development of the CMI and ultimate creation of an AMF have been driven mainly by three motivations. First, quite consistent with its key desire related to the 1997 AMF proposal, Japan wishes to establish a regional institution representing Asian voices. Indeed, an anti-American mood has grown within Japanese policy circles since the 1997 crisis, as Japan was heavily accused by the U.S. of not doing enough to help Asia at the time, despite Japan's having been the largest single donor

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35. Regarding creation of the CMI in May 2000, then Japanese Finance Minister Kiichi Miyazawa commented, “The new initiative [CMI] is of the same philosophy as the AMF. . . . While it takes the form of bilateral agreements, it is in nature similar to multilateral cooperation.” See “Asian Currency Contingency Plan Agreed On,” *Nikkei Weekly*, December 25, 2000.

36. See “Tokyo Revives IMF-style Fund for Asia,” Asahi News Service, February 10, 1999. The Japanese government has made a significant change in its foreign policy since the late 1990s by beginning to regard Asia as the most important region. See Tadahiro Yoshida, *East Asian Regionalism and Japan* (Chiba: Institute of Developing Economics, Japan External Trade Organization, March 2004), p. 13. Some studies indicate that Japan prefers “Asian-Pacific” economic cooperation, which includes Australia, New Zealand, and India, to simply “Asian” economic cooperation. See, for example, Hund, “ASEAN Plus Three.” Yet, note that even in this design of Asian-Pacific economic cooperation, the United States is not included.
to crisis-hit countries. In this situation, a volition to reduce U.S. influence in East Asia has risen within the Japanese government.37

Secondly, Japanese efforts to develop the CMI also aim at facilitating internationalization of the yen, which has been an important Japanese policy goal since the 1997 crisis.38 Japan expects that the CMI will help make the yen a more international currency, since through its BSAs it can encourage other countries to use the yen more often.39 Indeed, Japan’s BSA with China is denominated on Japan’s side not in dollars but in yen, marking the first time the yen has been used as the key currency in such an agreement.

The third reason behind Japan’s efforts for CMI development is China’s growing participation since the late 1990s in East Asian economic cooperation, especially with ASEAN countries.40 China’s influence in the region has grown as it has increased this participation. This has caused worries in Japan that China could take supremacy in East Asian regionalism, pushing Japan into moving to bolster its own leadership in the region.41 Under these circumstances, financial cooperation is an attractive idea for Japan, given that its financial system is more advanced than China’s, and it may therefore be easier for Japan to establish leadership vis-à-vis China in the area.

37. Yoshida, “East Asian Regionalism and Japan.” Werner Pascha argues that such Japanese interests in East Asian financial cooperation have aimed at protecting East Asia from financial risk, rather than at proactively trying to boost regional influence vis-à-vis United States. See Pascha, “The Role of Regional Financial Arrangements and Monetary Integration in East Asia and Europe in Relations with the United States.”


39. In April 2000, then Japanese Finance Minister Kiichi Miyazawa said, “We had been reluctant . . . about the yen’s internationalization . . . But our hesitation is now going away . . . Unlike in the past, we are positive now. . . . As a matter of fact, we are planning to expand, swap, and repurchase agreements between Japan and other countries. . . . Through such things, I hope other countries will have a sense of affinity with the yen.” See “Japan Growing More Ambitious about Pushing Yen: Miyazawa,” Agence France-Presse, April 25, 2000.

40. For China-Southeast Asian relations, see, for example, John Wong, Keyuan Zou, and Huanqun Zeng, China-ASEAN Relations: Economic and Legal Dimensions (Singapore: World Science Publishing, 2006).

China, meanwhile, has also supported the CMI, in sharp contrast to its negative 1997 reaction to the AMF proposal and to its traditional reluctance to join a regional cooperative framework. China has established BSAs with six countries, with total support amounting to $16.5 billion (as of April 2009). All four BSAs between China and ASEAN countries are for one-way support provision by China. Moreover, voices have grown within China stating that an AMF should be established, separate from the IMF.42

This rising Chinese support for East Asian financial cooperation appears to stem partly from its foreign policy objective of taking leadership in the region. However, there are two additional important factors. First, China has changed its stance, so that it now puts higher priority on reducing U.S. influence than on limiting Japan’s role in East Asia.43 The Sino-U.S. relationship worsened because of the U.S.-led NATO war in Kosovo in 1999, and since then China has begun to see the U.S. as the main threat to its interests.44 In this changed context, China has begun to view regional arrangements, particularly those that exclude the U.S., as effective means of reducing American influence in East Asia.45 Meanwhile, China has grown increasingly tolerant of seeing Japanese gains in the region, including expansion of the role of the yen, insofar as China can also derive benefit. Indeed, as shown above, China did accept the yen-denominated BSA with Japan in exchange for the reciprocal renminbi-denominated one. In other words, inside the Chinese policy community a positive-sum view relative to regional financial cooperation appears to have begun taking precedence over the zero-sum view. This change in China’s view of regional financial cooperation is partly attributable to the positive outcomes its earlier participation in regional multilateral arrangements such as the ASEAN Regional Forum have produced.46

Second, since the late 1990s China has begun to place greater emphasis on its Asian identity, which it deemphasized until the 1997 crisis. However, China was unhappy with the IMF bailout programs during the crisis, viewing the West in general, and the U.S. in particular, as having exploited the crisis to advance a particular economic agenda aimed at serving their

42. “Globalization, Information Technology Bring Opportunities to Asia,” Asahi News Service, July 10, 2000. Since the late 1990s, China has become a strong advocate of East Asian regional cooperation not only in economic but also in security-related areas. See Joshua Kuriantzick, “Pax Asia-Pacifica? East Asian Integration and Its Implications for the United States,” Washington Quarterly 30:3 (Summer 2007), pp. 67–77.
own interests. China’s resentment of the IMF policies helped it share with its Asian neighbors a sense of common victimhood vis-à-vis Western countries, bolstering its sense of Asian identity. This in turn led Beijing to support East Asian-only regional financial cooperation as a means of reforming the existing international economic order.47

One might ask whether China’s growing integration into the global economy has been another important factor behind China’s support for the CMI. In fact, since China joined the World Trade Organization in 2001, it has faced increasing pressure to open its financial markets, and its growing financial liberalization may expose it more to the risk of financial instability. In these new circumstances, China might expect regional financial cooperation through such mechanisms as the CMI to help with financial stability.48 However, in view of China’s large volume of foreign exchange reserves (amounting to about $2 trillion in December 2008), its need to use regional financial cooperation as a means of securing its own financial system is unlikely to be high. The political motivations discussed above, therefore, rather than such an economic motivation, appear to be more important factors explaining China’s support for the CMI.

After all, Japan and China appear to share, in principle, a common policy goal—establishment of a regional institution that can represent Asian identity and voices. This appears to have made it possible for the two countries to cooperate in developing the CMI. In other words, their basic consensus on the need for developing “Asian” regionalism appears to have broadened the room for cooperation between them.49 Of course, both countries also have other long-term policy objectives in supporting CMI development. However, such objectives have so far worked in harmony with their increased cooperation.

Weakening Opposition from Outsiders
In contrast to the 1997 AMF proposal, the CMI has not faced strong opposition from non-East Asian countries, including the U.S. Indeed, in May 2001, Paul O’Neill, then U.S. Treasury secretary, said in a news conference

47. Ibid. China’s embrace of East Asian financial cooperation may also have stemmed from its need to demonstrate its benign behavior and thereby reduce “China threat” perceptions in the region. However, this “China threat” rationale is not likely to explain China’s change to supporting East Asian financial cooperation from the late 1990s, since “China threat” perceptions were circulating in the region throughout the 1990s as well. See ibid.
49. In this regard, it is noteworthy that the Manila Framework eventually broke up in 2004, as it was ineffective in producing meaningful outcomes.
that he did not see why the U.S. should stand in the way as long as the CMI “makes sense to the participants.”50 However, a softened stance toward the CMI does not mean that traditional U.S. opposition to a regional grouping that excludes it has disappeared.51 In fact, Washington has kept a cautious watch on the development of the CMI, stressing the need for it to be compatible with the existing international financial system.52

This insistence follows a similar vein to the strong U.S. opposition to the 1997 AMF proposal. Given the U.S.’s powerful influence on international financial system management through existing international institutions such as the IMF, attempts to challenge these institutions could be inimical to American interests. The emergence of such a challenge is likely if the CMI develops independently. If that happens, CMI member countries might conduct surveillance and crisis management programs distinct from those of the IMF. Indeed, as discussed above, Japan and China have supported the CMI as a means of ensuring representation of East Asian voices. Therefore, it is likely that CMI development will create a crack in current international financial governance, reducing U.S. influence in the management of international financial affairs. Moreover, decreased influence may be accompanied by diminished U.S. regional power in other areas as well. In this regard, an important question is why the U.S. has not expressed strong opposition to the CMI despite its visible growth.

The lack of U.S. opposition to the CMI is partly attributable to the ASEAN+3 countries’ careful efforts to reduce U.S. suspicions that the CMI could challenge American interests. For instance, in their joint ministerial statements, ASEAN+3 countries have explicitly reiterated that the CMI or to establishment of an AMF:

50. “Japan Unveils 6 Bln Dlrs in Swaps with Three Countries,” Agence France-Presse, May 10, 2001. Since the early 2000s, the IMF also has not expressed strong opposition to the CMI or to establishment of an AMF.

51. A U.S. government study in January 2000 listed regional financial cooperation such as the 1997 AMF proposal as one of the ten biggest threats to the U.S. position in the world. See “Asian Regionalism in a High Wind,” The Nation (Bangkok), December 25, 2006. Also, in December 2004, Mitchell Reiss, then director for Policy Planning of the U.S. State Department, commented, “East Asians are developing a distinctive path to regional integration. And the United States, as a traditional Western Pacific power, must remain involved. . . . For our part, we seek an East Asia that is open and inclusive.” See “U.S. Wary as East Asian Community Nears Reality,” Nikkei Weekly, December 13, 2004.

52. In June 2006, Timothy D. Adams, then under secretary for International Affairs, U.S. Department of the Treasury, commented, “Specifically, we see room for further clarity on the Chiang Mai Initiative. Too little is known by the markets or by borrowers about amounts available absent IMF adjustment programs, and conditions, if any, CMI creditors would impose. More clarity on these issues would aid an assessment of the CMI’s compatibility with the international system.” See “Treasury Official Adams Addresses World Economic Forum,” U.S. Fed. News, June 15, 2006.
will supplement existing international financial arrangements. Also, under the CMI, any country drawing more than 20% of its allowable maximum is required to accept an IMF financial support program.

The careful ASEAN+3 emphasis on a low-profile for the CMI cannot, however, fully explain the lack of U.S. opposition. Japan made similar endeavors to reduce U.S. and IMF opposition to the 1997 AMF proposal by emphasizing that the AMF would act in concert with the IMF.\textsuperscript{53} Moreover, the CMI involves elements that could lead the U.S. to doubt its supplementary nature vis-à-vis the IMF. For example, even though the CMI fund disbursement mechanism is currently linked with an IMF program, this linkage has weakened. The swap amount a country could draw without connection with an IMF program was initially only 10% of its maximum drawing amount. From 2005, however, that proportion has been increased to 20%. In discussing the disbursement mechanism of the multilateralized CMI, ASEAN+3 countries are considering increasing the IMF de-linked portion above this limit.\textsuperscript{54}

In this regard, cooperation between Japan and China, which clearly distinguishes the CMI from the 1997 AMF proposal, is likely to be a more important factor in explaining the lack of U.S. opposition. This cooperation appears to have reduced the ability of the U.S. to object to the CMI, leading it to regard what was once objectionable as now a fait accompli. Perhaps the U.S. has the ability to block the CMI despite cooperation by Japan and China, but it will bear considerable political costs if it does so. In fact, there are growing worries within the U.S. that trying to forestall East Asian cooperation will only exacerbate anti-Americanism in the region, which has worsened because of U.S. policies during the 1997 crisis, the Iraq war, and the war on terrorism.\textsuperscript{55} U.S. efforts to suppress development of East Asian cooperation may in fact enhance the appeal of China.


\textsuperscript{54} It should be also noted that the linkage with an IMF program is not just to keep the CMI supplementary to the IMF. The linkage serves the interests of prospective creditors (Japan, China, and South Korea) as well, as they will wish any money they provide to be spent properly without creating moral hazard. Indeed, the three countries have insisted on a surveillance mechanism supervised by the IMF, despite opposition from some ASEAN countries. See “ASEAN Agrees on IMF Role in Currency Plan,” Channel News Asia (Singapore), April 7, 2001; and “AFFM Agrees that Swap Deal Will Be Supplementary to IMF Facilities,” Malaysia Economic News, April 7, 2001.

to its neighbors: it could be seen as defending East Asian interests against the U.S.\textsuperscript{56} In these circumstances, it has become more difficult for the U.S. to express strong opposition to the CMI.\textsuperscript{57}

**Conclusions**

This article has analyzed the factors behind the successful evolution of the CMI, a prominent example of the development of East Asian financial cooperation since the 1997 Asian financial crisis. It has done so by placing CMI development in a historical and political economic context, in particular by comparing it with the failure of the 1997 proposal for an AMF. The paper has demonstrated that the political dynamics of East Asian financial cooperation have changed substantially, and that it is this that has led to successful CMI development. One critical element in these changed political dynamics is the current cooperation between the region’s two major powers, Japan and China. Since the 1997 crisis, Japan has become positive about taking regional financial initiative, while China has become more willing to cooperate with Japan and to support East Asian financial cooperation. In addition, the U.S. has come to tolerate the development of East Asian financial cooperation as its ability to block such a movement has declined. These findings shed light on the factors influencing the development of East Asian financial cooperation.

Successful multilateralization of the CMI is highly likely. Even though the ASEAN+3 countries have not yet reached final agreement on the remaining key issues related to multilateralization, such as borrowing quotas, decision-making mechanism, activation mechanism, and contribution sizes of individual countries, their differences in views in these areas have been narrowing across several meetings. In fact, ASEAN+3 countries expect to reach final agreement on CMI multilateralization during 2009. Establishment of a de facto East Asian monetary fund is no longer just talk. The start of a new stage of East Asian financial cooperation is approaching.

Given that Japanese and Chinese support for development of the CMI has come largely from their common policy goal of establishing a regional institution representing East Asian voices, the realization of CMI multilateralization is likely to create tension in the existing international financial governance. ASEAN+3 countries may try to operate the multilateralized CMI in a way that reduces the regional influence of existing international financial institutions, the main players in which are Western

\textsuperscript{56} Kurlantzick, “Pax Asia-Pacifica?” p. 74.

\textsuperscript{57} There is an indication that the United States may benefit from East Asian financial cooperation. However, such an argument is not so appealing, given that the United States has not expressed strong support for it.
countries. Alternatively, ASEAN+3 countries may demand more power within the existing systems of international financial governance in exchange for keeping the multilateralized CMI compatible with the existing international financial system. Whatever the outcome, it will shake up the current structure of international financial governance.

Certainly, there may be obstacles that might hinder further development of East Asian financial cooperation. Yet, the successful evolution of the CMI demonstrates that cooperation between Japan and China, long deemed difficult to realize, can emerge. The political dynamics in East Asia have been changing in a direction that strengthens East Asian voices and interests in the international system.