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**U.S. Perspectives on Financial and Monetary Cooperation
in the Asia-Pacific Region**

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Introduction

The United States approaches regional financial institutions and cooperation with some ambivalence. On the one hand, U.S. officials wish to influence the direction of regional initiatives and policy developments. On the other hand, they are wary of over-committing themselves, both in terms of the resources that the U.S. might bring to financial crisis resolution, for example, and the time and energy of key personnel. The ambivalence is manifest, among other ways, in differences between the economic policy agencies and political agencies, as well as between the executive branch and the Congress.

This paper reports the results of a survey of U.S. officials, former officials and well-informed observers regarding the institutions and processes of financial and monetary cooperation in the Asia Pacific region. It is part of a broader project organized by the PECC Financial Forum to survey the views of governments and officials throughout the region. To facilitate comparison across countries, the paper adheres to the structure proposed in the background paper by Wendy Dobson.¹ As a report on the views of others, this paper does not represent the views of the author or his recommendations for reform of regional institutions.²

The United States is a member of APEC, the Manila Framework Group (MFG) and the Asian Development Bank (ADB). The first-hand knowledge of most U.S. officials is therefore limited primarily to these three institutions, although in some instances interviewees have occasional insights on other institutions as well. The views reported here are based on non-for-attribution interviews with people at the Federal Reserve, Treasury Department, State Department and selected research institutions in Washington, D.C. All of these people are or have been directly involved in the making of U.S. financial and monetary policies in the region and have attended regional meetings.

We can identify at the outset several broad themes in their answers to the questions posed in the survey. Because U.S. policymakers tend to be relatively visible and assertive throughout the region, their views are substantially known and the basic tendency of the themes reported here may not be surprising. Nonetheless, these views are gathered here for the first time known to this author (as is no doubt true of most of the other country surveys), offer some more novel specific suggestions, and could well inform some creative recommendations by the PECC Financial Forum for strengthening regional institutions.

¹ Wendy Dobson, "The Case for Regional Financial and Monetary Cooperation in the PECC Economies: Background Issues and Questions for Inquiry," manuscript, March 24, 2002.

² The author's views appear in C. Randall Henning, *East Asian Financial Cooperation, Policy Analyses in International Economics* (Washington: Institute for International Economics, September 2002).

First, the multilateral institutions such as the IMF are the most useful and important arenas for financial activism and financial cooperation in the Asia Pacific region (as well as other regions). Regional institutions can be useful, but usually as reinforcement for what is being done in the multilateral institutions.

Second, among the institutions in which the United States participates, the MFG makes the greater contribution to regional cooperation, in the form of surveillance. Even here, however, U.S. officials see limited benefits, are frustrated at the amount of “talk” relative to “concrete action,” and have recently been inclined to reduce their time commitments.

Third, in keeping with their views about the relative importance of regional and multilateral institutions, most officials would agree that regional institutions should maintain strong links with the IMF, G-20, BIS, etc. They are wary of regional arrangements that “carve out” a separate sphere of action and of standards and regulatory regimes that are separate from multilateral ones.

Regional Institutions

U.S. officials generally assess the value of regional financial institutions and cooperation by the contribution of each to advancing a substantive agenda for economic and financial reform. By this standard, in the words of one interviewee, regional cooperation can be “helpful, not necessary.” Another interviewee, however, observes that it would be a mistake for the United States to abandon them.

U.S. officials wish to advance transparency, fiscal reform, financial regulatory reform (including implementation of Basel accords), and improvements in corporate governance. These agenda items, which include use of ROSCs and FSAPs, are developed mainly at the multilateral level, at the IMF, BIS, FSF, and G-20. Regional cooperation is useful in endorsing these multilateral measures in these regards.

Regional meetings also serve the purposes of (1) economizing on the time of senior officials, (2) organizing technical assistance, and (3) enabling senior officials to get to know one another personally so that they can communicate effectively over the telephone when a crisis strikes. If regional meetings were not held, a multiplicity of bilateral meetings would have to be held; regional meetings are more efficient.

Of the two organizations in which the U.S. is most engaged, the APEC finance ministers meetings and the MFG, the MFG is perceived to be the most useful in the financial and monetary area. It serves the purpose of exchanging information about domestic economies and prospects in a small setting with a genuine dialogue at times. It has held good substantive discussions on corporate finance and bank restructuring, for example, which improve “mutual understanding.”

MFG has recently discussed the creation of a financial facility to support members confronting crises. While stopping short of creating such a facility, the group agreed on a set of principles that would guide its mobilization if that were deemed desirable at some point in the future. Such financing would be in conjunction with an IMF program, bilateral and voluntary, among other things.

APEC Finance Ministers meetings are regarded as large, diverse and unwieldy. Consensus comes with difficulty. “Not the most efficient forum.” Some officials lament that these meetings have been “long on ceremony” and “short on substance.” Enthusiasm in the economic agencies has receded, but this could change with the changing international financial agenda. Specifically, it could be a useful forum in which to pursue financial market liberalization and terrorist financing.

EMEAP is perceived to be a “good meeting” because it meets at the senior technical level with only central bank officials present.

Leadership in MFG tends to be provided by a combination of the United States, Japan and Australia, as well as the host country for each meeting. Hong Kong and Singapore participate relatively actively. Leadership in APEC is provided mainly by the host country for the year, although the United States has input to the agenda. Japan provides leadership in the ADB, which is viewed as less transparent and less critical of members’ policy mistakes.

Regional Cooperation

An effective Early Warning System (EWS) is not an attainable objective for any forum. These are “talk groups” (MFG and APEC), good for exchanging information, reinforcing the case for need for reform, and getting to know the players. It is more productive to focus on reviewing economic policy reform programs and what is necessary to stick to the reform path than to attempt to pre-empt crises by reviewing formal indicators.

“Action” should be done through the IMF rather than a regional organization. There are many examples of weak conditionality in the case of Europe, and U.S. officials fear that East Asian conditionality could follow that example. It is easier for neighbors to say “no” at the IMF than in their regional groups. U.S. policymakers are thus somewhat skeptical of the value of the bilateral swap arrangements under ASEAN+3’s Chiang Mai Initiative.

U.S. officials are also wary of creating regional subsets of global standards, such as in the banking field. In principle, a regional standard that is more ambitious than the global standard might be desirable. But they do not see “IMF Plus” regimes evolving in practice in East Asia. One interviewee suggests that treating banking supervision in a regional institution would be a “quagmire.”

Officials in Washington perceive APEC to be a success in the area of training, for which the ADB has played an important facilitating role. Regional organizations have also facilitated technical assistance by economizing on the time, energy and resources of providers. SEACEN may be a case in point. AFDP could become another.

An aversion to criticism on the part of officials from most of the region is a serious problem that impedes the development of surveillance and meaningful policy dialogue in these organizations. There continues to be general frustration with the quality of discussion and results.

Reforms

Given a desire to eliminate superfluous meetings, and to conserve time of senior officials, one interviewee suggests that the MFG and APEC meetings be integrated. APEC includes all of the members of the MFG. MFG could meet at the deputies level prior to or on the margins of the APEC finance ministers meetings. The model is the WP3 meetings of the OECD. There would be a tension between MFG members and non-members in APEC, but that tension has been managed successfully in the OECD.

Extensive monetary cooperation would require (a) real independence on the part of central banks vis a vis their governments (as distinct from nominal independence) and (b) a regional institution that brings them together to work effectively without being subject to political interference in the management of the regional monetary regime. The model for this is the Committee of Central Bank Governors that coordinated monetary operations in the European Monetary System.³

EMEAP, which could be the institutional foundation for such a central-bank-dominated system, could benefit from admitting the United States as a full observer. The institutional precedent would be the BIS prior to expansion, an institution in which European central banks were dominant but in which the Federal Reserve participated as well.

The development of a more robust regional surveillance mechanism in ASEAN+3 would be desirable. But, for such a mechanism to qualify as “IMF plus” it would produce reports that (a) were more critical of countries for policy errors than Article IV surveillance papers, (b) addressed substantive areas beyond the purview of IMF reviews or more extensively (financial system, fiscal deficits, exchange rate policy and

³ In the European case, however, while central banks were allowed to manage the system with limits on governmental interference, political authorities were critical to providing the impetus and institutional framework for monetary integration. The Monetary Committee in which finance ministries were well represented, for example, played a critical role in the management of the EMS as well. Among other work, see, Henning, *Currencies and Politics in the United States, Germany and Japan* (Washington: Institute for International Economics, 1994).

intervention, corporate governance and corporate liabilities were mentioned specifically), and (c) were public. This is acknowledged to be a tall order.

Regional-Global Linkages

Regional surveillance and policy dialogue can continue to build on the IMF surveillance process. In financial stabilization, the “IMF link” embodied in the CMI is reassuring and should be maintained. The IMF has a comparative advantage in SDDS, ROSCs and FSAPs. Regional arrangements can build on these as well.

Conclusions

Officials in the current administration might well be disenchanted with regional forums. They perceive redundancy in the patchwork of overlapping regional institutions and are frustrated at the lack of spontaneous, meaningful dialogue among senior personnel. They are thus likely to be receptive to creative proposals that rationalize this overly complex system, particularly if that were to reduce the number of meetings, limit the level of the meetings (deputies may be more useful than ministerial meetings), and offer the opportunity for meaningful exchange.