Japan’s Asian Monetary Fund Proposal

Phillip Y. Lipscy

I. Introduction

When Japanese financial authorities proposed the creation of an Asian Monetary Fund (AMF) at the height of the Asian Financial Crisis in the fall of 1997, the international financial community seemed to release a collective gasp. The intrepid proposal for a regional alternative to the International Monetary Fund (IMF) seemed to arise without warning and at the worst possible moment. In the eyes of many, it was even more surprising that the proposal originated from the Japanese financial bureaucracy, a group not particularly renown for its audacity or creative policy entrepreneurship. The proposal raised temporary hopes among the crisis-ridden economies of Asia but elicited a stringent rebuke from the IMF and the US Treasury, and ultimately fell to the wayside in favor of a more IMF-centered approach.[1]

Although the AMF proposal stirred virulent controversy and ignited an unusually visible conflict between the financial authorities of Japan and the United States, very little analysis has been conducted after its rejection. In this paper, I will provide an exposition focusing on three aspects of the proposal. First, building off of personal interviews conducted in the summer of 2000 with several senior Ministry of Finance (MOF) officials including Eisuke Sakakibara, former Vice Minister for International Affairs, and key players such as Hajime Shinohara, one of the masterminds behind the AMF proposal, I will explain how the AMF emerged as a Japanese government initiative.

Second, I will provide an explanation of motivations. Why did the Japanese financial authorities choose to push for an AMF during the height of the Asian Crisis? What drove the US and the IMF to stringently oppose the proposal? Contrary to analyses focusing on ideology or concerns for economic efficiency, I will provide an argument based on national self-interest. During the crisis, Japan had a much stronger preference for rapid liquidity provision due to its high levels of banking exposure and close economic ties with East Asia. Comparatively speaking, the US had weak ties and tilted towards emphasizing moral hazard concerns. Meanwhile, the lack of Japanese institutional leverage within the IMF assured that Japanese interests could not be realized within the existing international financial architecture. Thus, Japan pushed for an AMF and provided credit through a series of bilateral initiatives, while the US (and the IMF) emphasized the need for structural reforms and imposed relatively harsh conditionalities on lending.

Finally, I will discuss the feasibility for an AMF in the future. Although the debate over the AMF seemingly revolves around questions of economic efficiency, motivations and outcomes are largely driven by political concerns. This is not likely to change in the future. However, Japan appears to be adopting a gradualist approach by promoting a regional bilateral swap network that may eventually facilitate or evolve into a full-fledged institution.

II. Japan and the Asian Monetary Fund

When Japanese financial authorities proposed the creation of an AMF at the G7-IMF meetings in Hong Kong during September 20-25, 1997, most observers were taken by surprise. One analyst comments that the proposal emerged “out of the blue.”[2] Among officials within the US

[1] For a general exposition, see Sakakibara, Eisuke. *Nihon to Sekai ga Furueta Hi [The Day that Rocked Japan and the World]*. Tokyo: Chuo Koron Shinsha, 2000.

[2] Rowley, Anthony. “Asian Fund Special: The Battle of Hong Kong.” *Capital Trends 2*, no. 13, November 1997. <http://www.gwjapan.com/ftp/pub/nrca/ctv2n13b.html> (5 May 2001).

Treasury, the plan was seen as half-baked and devoid of meaningful details. Undoubtedly, the timing was peculiar – by September, both the Philippines and Indonesia had floated their currencies and the Asian Financial Crisis was increasingly showing signs of contagion. Under such conditions, stirring controversy over a proposal to significantly reform the structural dynamics of the international financial institutions could be gravely destabilizing. What led the Japanese Ministry of Finance (MOF) to propose this regional alternative to the IMF? This section traces the AMF from its origins to its *de facto* rejection at Manila in November 18-19, 1997.

MOF bureaucrats seriously began promoting the AMF proposal starting in late August 1997. However, the proposal appears to have deeper roots and was not as half-baked as conventionally assumed. Like many initiatives emanating from the Japanese bureaucracy, the origins of the AMF proposal are not immediately transparent. In his memoir, Sakakibara merely indicates that the AMF idea had been formulated and supported by Haruhiko Kuroda (then Director of the International Bureau of MOF, later Vice Minister for International Affairs) and "others" within the country.[3] At least part of the opacity seems to stem from reluctance to take credit for the rather controversial proposal. When the AMF initially surfaced, the *Nikkei Shinbun* (Japan's most prominent economic newspaper) repeatedly described the proposal as being "advocated by Thailand and other countries" and an official MOF report takes pains to point out that "[A proposal similar to the AMF] had been already discussed among ASEAN countries in the spring of 1997."[4] At least initially, the Japanese financial authorities appear to have been wary of pushing for the proposal too openly and instead chose to portray themselves as responding to an initiative emerging from other Asian countries.

According to several informed sources, however, Toyoo Gyohten and Hajime Shinohara of the Institute for Monetary Affairs (IIMA) worked closely with Haruhiko Kuroda in formulating the proposal. IIMA is affiliated with Tokyo-Mitsubishi Bank, which has traditionally close ties with the International Bureau of MOF, and the President is usually a retired Vice Minister for International Affairs (as is Toyoo Gyohten). Shinohara and Gyohten had toyed with the idea for an "Asian Monetary Organization" in the fall of 1996 after the US/IMF bailout of Mexico, based on the premise that the US would not act as vigorously in the event of a similar crisis in Asia. The initial size of the fund was envisioned to be around $20 billion. By February to March 1997, the IIMA had come up with a blueprint for the AMO and intended to promote the proposal at the May 1997 ADB meeting at Fukuoka as the "Gyohten Initiative." However, the proposal was temporarily shelved because of unrelated events undermining Japan's position in Asia.[5]

By August 1997, however, the tide had reversed. After Thai authorities floated the baht on June 2, Japan played a major role in facilitating bilateral commitments towards the IMF rescue package. Sakakibara quotes Thai Finance Minister Thanong Bidaya as saying, "Although I was disappointed by the Japanese government's reaction on July 18 (when Japan refused to commit funds on a bilateral basis), now I am deeply grateful. This day will be firmly engraved in Thai history."[6] Japan itself committed $4 billion to the $17.2 billion package, an amount equivalent to the contribution from the IMF.[7]

[3] Sakakibara, Eisuke. *Nihon to Sekai ga Furueta Hi [The Day that Rocked Japan and the World]*. Tokyo: Chuo Koron Shinsha, 2000. Pp. 182.

[4] Ministry of Finance (Japan). *The Council on Foreign Exchange and Other Transactions*, "Lessons from the Asian Currency Crises – Risks Related to Short-Term Capital Movement and the"21st Century-Type" Currency Crisis. 19 May 1998. <http://www.mof.go.jp/english/tosin/e1a703.htm> (15 May 2001). Chapter 2.

[5] According to a knowledgeable source, MOF had undermined its position within Asia by expanding the so-called "Four Markets Committee" (FMC) to a "Six Markets Committee." The initial FMC had been set up in 1995 as an initiative by Sakakibara and included Hong Kong, Singapore, Australia, and Japan. The goal was to pursue exchange rate stability and cooperative intervention. In 1996, the FMC was expanded to include the US and China, and some references were made to the committee as constituting an "Asian G6." This was not well received by several countries, most notably Korea and Taiwan, who protested that their economic sophistication exceeded that of China. This debacle undermined MOF's position in Asia and made promotion of the AMO proposal difficult. (Personal Interview, 11 September 2000.)

[6] [my translation of the Japanese text]. Sakakibara, *Nihon to Sekai ga Furueta Hi*, 181.

Meanwhile, the United States took a hands-off attitude at this early stage of the Asian Crisis. The Washington Post noted on August 12, 1997 that the "United States [was] conspicuous by its absence" during the organization of the Thai bailout.[8] MOF officials noted that the Thai support meeting had created an "Asian Consensus" and to some extent legitimized Japan's role as a regional leader at the expense of the United States.

Another important development contributing to the emergence of the AMF proposal concerned the internal dynamics within MOF. Sakakibara and Kuroda had been respectively promoted to Vice Minister of International Affairs and Director of the International Bureau in July 1997, putting in place a leadership supportive of and willing to promote the AMF idea.[9] Although Sakakibara himself was not responsible for formulating the proposal, his leadership appears to have been critical in promoting the AMF – more traditional MOF bureaucrats probably would have shied away from the sheer possibility of colliding with the US Treasury and the IMF.[10]

Earlier formulations of the AMF proposal such as the AMO were probably not very detailed or formalized, and several key MOF policy makers did not recognize that such a predecessor existed. Regardless of the relationship between the earlier and later versions, however, it is clear that official endorsement of the AMF proposal by MOF did not come until around August and September 1997. Sakakibara apparently played the key role of perceiving a ripe opportunity to promote an inchoate proposal informally held among several high-level players in the Japanese international financial policy elite.[11]

According to Sakakibara, MOF began serious work on the AMF proposal following the IMF-sponsored Thai support meeting held in Tokyo on August 11. He asserts that an "Asian sense of solidarity" pervaded this meeting and became a key factor in his decision to promote the AMF plan.[12] An informed source also noted that the Thai bailout package exposed IMF underfunding and served as a model for the AMF by demonstrating that pooling abundant Asian reserves could be an effective strategy in dealing with financial crises. The AMF would also obviate tedious and time-consuming consensus building in the future by automating commitments.[13] Mari Pangestu at the Center for Strategic and International Studies in Jakarta also notes that, "The rescue package for Thailand in fact marked the beginnings of an Asian fund. The new part of the idea is to prepare such funds in advance of the crisis, instead of raising them after the crisis has struck."[14]

After the meeting in Thailand, MOF formulated a basic plan for the AMF and began to promote the idea among Asian countries in late August. At this point, the AMF was envisioned as a $100 billion fund composed of ten members – China, Hong Kong, Japan, South Korea, Australia, Indonesia, Malaysia, Singapore, Thailand, and the Philippines. Notably, membership was not extended to the United States, and the original policy memo suggested that the AMF would not necessarily act in unison with the IMF.[15] Sakakibara later indicated that he did not directly communicate the proposal to the United States because he foresaw stiff resistance and believed that the US would accept the proposal only reluctantly in the face of an "Asian consensus,"[16] more or less as a *fait accompli*.

The US Treasury acted immediately after obtaining information on the AMF and actively opposed it. According to Sakakibara, then Deputy Treasury Secretary Larry Summers called him directly at his residence at midnight and angrily started, "I thought you

[7] MOF, *Lessons from the Asian Currency Crises*, Appendix 19.
[8] Blustein, Paul. "Rescue Loans Are Pledged To Thailand, Without U.S." *Washington Post*, 12 August 1997, sec C, p. 1.
[9] Personal Interview, 11 September 2000.
[10] MOF Official, Personal Interview, 11 August 2000.
[11] Former MOF Official, Personal Interview, 20 September 2000.
[12] Sakakibara, *Nihon to Sekai ga Furueta Hi*, 180-182.
[13] Personal Interview, 11 September 2000.
[14] Pangetsu, Mari. "The rescue package for Thailand in fact represented the beginnings of the Asian Fund." In "Forum: Is the Asian Fund a winning idea?" *Capital Trends 2*, no. 13, November 1997. <http://www.gwjapan.com/ftp/pub/nrca/ctv2n13d.html> (5 May 2001).
[15] Sakakibara, *Nihon to Sekai ga Furueta Hi*, 183-4.
[16] Former MOF Official, Personal Interview, 9/20/00

were my friend."[17] During a heated two-hour conversation, Summers allegedly criticized the plan for excluding the United States and allowing for action autonomous of the IMF. Sakakibara believes the stringent American reaction was driven by its perception that Japan was posing a challenge to American hegemony in Asia through the AMF.[18] The official line of the US Treasury focused on two key factors: Moral Hazard and Duplication. According to this line of argument, the AMF would create an unnecessary incentive for Asian countries to postpone adjustment and would add very little to the pre-existing system centered on the IMF.

Although "[the AMF] received a warm reception in virtually every Southeast Asian capital" and Taiwan and South Korea were favorably disposed, support began fading immediately as the US and IMF expressed opposition.[19] Sakakibara strongly implies that the US used enticements such as increased IMF quotas for Asian countries and promises regarding the NAB (New Arrangements to Borrow) in order to build support against the AMF.[20] An informed source also indicated that the US lobbied China to oppose the plan by emphasizing the threat of "Japanese hegemony."[21] Contrary to some outside sources that point to MOF "backpedaling" subsequent to US opposition,[22] Sakakibara explicitly states that Japan actively competed with the US through its persistent efforts to build a consensus around the AMF. The whole affair reached a climax at the Regional Finance Minister's meeting held in Hong Kong on November 21, to which the US and IMF attended as observers. While ASEAN and South Korea expressed support for the AMF proposal, Hong Kong and Australia remained neutral, and China voiced no opinion.[23] Sakakibara had failed to deliver his Asian consensus. Without Chinese support and in the face of grave US opposition, the AMF proposal was effectively dead.

In its place came the "Manila Framework," a cooperative framework envisaged under four broad headings:

1. A mechanism for regional economic surveillance to complement the IMF's global surveillance
2. Enhanced economic and technical cooperation in strengthening domestic financial systems and regulatory mechanisms
3. Measures to strengthen the IMF's capacity to respond to financial crises
4. A cooperative financing arrangement that would supplement IMF resources.[24]

Japan benefited from the opening of the IMF regional office in Tokyo, which, one observer notes, "is quickly developing into the locus of regional IMF activities such as economic surveillance."[25] The Manila Framework, however, marked an indisputable victory for the IMF-centered approach of the US. The framework has no institutional component or the regional orientation of an AMF, and the core prescriptions are designed to enhance rather than weaken the role of the IMF.

III. Motivations

This section seeks to explain two empirical questions raised in the preceding section. First, why did Japanese financial authorities propose the AMF when they did? Second, what led the US and the IMF to oppose the proposal? I will argue that the answer to both of these questions lies in national preferences towards the tradeoff between liquidity provision and moral hazard.

The line below represents the tradeoff a country faces when confronted with a financial crisis in a foreign country. The dilemma is a familiar one. The provision of rapid, abundant liquidity to a country under crisis will comfort investors and increase the likelihood that

[17] Sakakibara, *Nihon to Sekai ga Furueta Hi*, 185.
[18] Ibid.
[19] Altbach, Eric. "The Asian Monetary Fund Proposal: A Case Study of Japanese Regional Leadership." *Japan Economic Institute Report no. 47a* (19 December 1997). Pp. 10.
[20] Sakakibara, *Nihon to Sekai ga Furueta Hi*, 186.
[21] Personal Interview, 11 September 2000.
[22] Altbach, "The Asian Monetary Fund Proposal: A Case Study of Japanese Regional Leadership," 10.
[23] Sakakibara, *Nihon to Sekai ga Furueta Hi*, 189.
[24] MOF, *Lessons from the Asian Currency Crises – Risks Related to Short-Term Capital Movement and the"21st Century-Type" Currency Crisis*.
[25] Rowley, Anthony. "International Finance: Asian Fund, R.I.P." *Capital Trends 2*, no. 14, December 1997. <http://www.gwjapan.com/ftp/pub/nrca/ctv2n14g.html> (15 May 2001). Pp. 2.

Diagram 1: The Liquidity Provision vs. Moral Hazard Preference Line

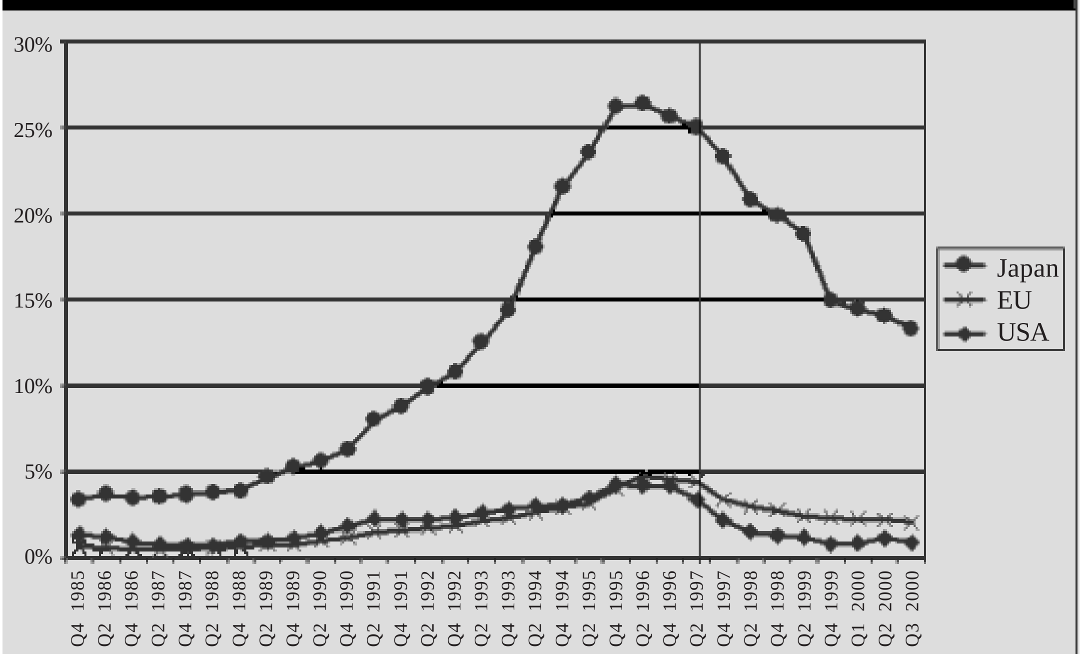
Moral Hazard	**Liquidity Provision**
• Provide limited liquidity	• Abundant liquidity
• Stringent conditionality	• Soft or no conditionality
• Encourage long-term reform	• Focus on short-term problems

the crisis will subside at least for the time being. However, easy liquidity also contributes to moral hazard – investors will make riskier investments and countries will shirk from reforms such as enhanced banking regulation (See Diagram 1). If the international system were governed by a single, non-political lender of last resort, a rational policy could be undertaken on a case-by-case basis to balance the two opposing concerns. In the absence of such a centralized decision-maker, the liquidity provision vs. moral hazard tradeoff becomes distributive in nature. Political considerations and economic ties will influence state decisions, and rescue operations will be determined by the position of key creditor states on the preference line.

States will prefer rapid liquidity provision if economic ties with the crisis-economy are dense, political interests are at stake, and domestic conditions are conducive to providing funds abroad. This policy will provide a quick recovery of the crisis-economy, benefiting the creditor, while moral hazard costs will be borne over the long run by the entire international community. If these conditions are absent, the creditor will have no particular incentive to provide a rapid bailout and may use the crisis as an opportunity to extract concessions from the crisis-economy or allow conditions to deteriorate to provide warning signs against careless international lending and irresponsible domestic policies.

In the case of the Asian Crisis, Japan leaned much further towards liquidity provision compared to the US and EU due to its highly exposed banks and closer economic ties to the region. Bank exposure is a case in point. The following chart shows the amount of outstanding private lending to Thailand from the US, EU, and Japan (See Diagram 2).[26]

Diagram 2: Thailand as a % of Lending to Developing Countries



Source: BIS, Consolidated International Banking Statistics

[26] Due to limitations on available data for lending to developed nations, the figures are provided in terms of percentage of lending to all developing countries. Data for the EU does not include Greece and Luxembourg.

As the data indicates, Japanese exposure to Thailand at the height of the crisis was extremely high compared to that of the EU and the US, standing at around 25% of lending to all developing countries. Japanese financial institutions also lent the most in absolute terms – around $38 billion compared to $20 billion for the EU and $4 billion for the US.[27] Thus, Japanese banks stood at the greatest risk in the event of a major conflagration.

Japan also had very strong economic ties to Thailand in the form of foreign direct investment and trade. Japan is the largest foreign investor in Thailand in terms of stock.[28] Although the US and Japan account for about the same share of trade with Thailand, Japan consistently runs a trade surplus while the US runs a large trade deficit, making Japan more vulnerable to an economic slowdown. In terms of bank exposure, FDI, and trade, the same general pattern applied to broader East Asia on the verge of the crisis, making Japan more susceptible to the effects of regional contagion.

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It is interesting to note that this exposition can be neatly reversed for the 1994 Mexico Crisis. US bank lending and economic ties to Mexico far exceeded that of Japan. Consequently, US and Japanese preferences towards the liquidity provision vs. moral hazard tradeoff during the Mexican and Thai crises were reversed. In the Mexico crisis, the US acted vigorously to organize an unprecedented and massive bailout package amounting to $50 billion, while Japan stood aside, providing neither leadership nor liquidity.[29] In Thailand, the exact opposite outcome ensued, with Japan taking leadership and pushing for a large bailout while the US stood aside.

Other possible explanations for the policy divergence include domestic political circumstances and ideology. In Japan, the historical trend of providing large amounts of Official Development Assistance (ODA) to developing countries, especially Asia, has created an environment comparatively favorable to the provision of credit abroad. Additionally, the International Bureau of MOF is literally down the hallway from the MOF Budgeting Bureau, the primary budgeting authority of Japan. In contrast, the US Treasury must face an unfavorably disposed Congress, and in 1994 the Exchange Stabilization Fund was tapped as an ad hoc slush fund to rescue Mexico. This enraged legislators in Congress who subsequently imposed restrictions on the use of these unappropriated funds. The restrictions only expired in September 1997, in time for the bailouts of Indonesia and Korea but too late for Thailand.[30] Criticism and pressure from Congress continued throughout the Asian Crisis, and in 2000 the Meltzer Commission Report severely criticized both US and IMF policies during the crisis.[31] Finally, while the Japanese Export-Import Bank (EXIM) can provide untied loans and other aid measures to countries in distress, US law prohibits balance-of-payment support through the EXIM. This severely constrains the policy maneuverability of the US government.[32]

In terms of ideology, one could make the argument that the US and the IMF subscribed to

[27] Bank for International Settlements. *Consolidated International Banking Statistics*. February 2000. <http://www.bis.org/statistics/bankstats.htm> (8 May 2001).

[28] Castellano, Marc. "Rapid Recovery in Southeast Asia Strengthens Japan-ASEAN Economic Relations." Japan Economic Institute Report no. 24a (23 June 2000). Pp. 3.

[29] Kindleberger, Charles P. Manias, Panics, and Crashes. New York: John Wiley & Sons, Inc., 2000. Pp. 203.

[30] Krause, Lawrence B. *The Economics and Politics of the Asian Financial Crisis of 1997-98*. The Council on Foreign Relations, 5 June 1998. <http://www.cfr.org/public/pubs/crisis.html> (19 May 2001).

[31] Calomiris, Charles W. "When Will Economics Guide IMF and World Bank Reforms?" *CATO Journal* 20, no. 1 (2000), 85-87.

[32] Hashimoto, Kohei, ed. *Domestic Determinants of Japanese Foreign Policy*. Kyoto: PHP Kenkyujo, 1999. Pp. 378-379.

a much more free market-oriented ideology than the Japanese financial authorities. Thus, they were slow to acknowledge that short-term capital market liberalization contributed to the Asian Crisis and pushed for domestic reforms that would diminish the role of the public sector. The Japanese authorities, as epitomized by Sakakibara, leaned towards supporting the Asian model of development and did not see such structural issues as lying at the heart of the crisis. Instead, prescriptions focused on greater *regulation* through means such as capital controls and better oversight over the international financial system. Explanations focusing on ideology, however, are complicated by the fact that ideology itself may be shaped by alternative factors. The US, for example, may have touted its free-market ideology as a means to secure liberalization favorable for its own multinationals and financial corporations. Japan, on the other hand, may have subscribed to the Keynsian view of low interest rates rather than the IMF's contractionary policies because it feared economic recession more than devaluation in the crisis-economies – recession would harm local sales by Japanese multinationals while devaluation, under certain circumstances, would increase their competitiveness in world markets.

Both domestic politics and ideology, however, seem to provide a poor explanation of the asymmetrical responses exhibited during the Asian and Mexican crises. The US clearly supported liquidity provision during the Mexican Crisis and several sources suggest that conditionalities were not strictly enforced.[33] Japan, on the other hand, stood aside, apathetically providing virtually no support. The ideological explanation would seem to imply a relatively consistent reaction from both countries during both crises. Domestic politics fails to explain Japanese quiescence during the Mexican crisis – domestic conditions consistently provided greater comparative maneuverability for Japanese financial authorities. Self-interest based on the distributive tradeoff between moral hazard and liquidity provision provides a more consistent explanation. Thus, domestic politics and ideology probably served as secondary factors at best, augmenting but not overriding economic self-interest.

The AMF proposal emerged as a result of this preference divergence between Japanese and US financial authorities and one additional factor – US domination of the IMF. The IMF was created in 1945, in an era of unambiguous US economic hegemony and Japanese devastation, largely through a series of compromises between rival plans developed by Harry Dexter White of the US Treasury on one hand and by Lord Keynes of Great Britain on the other.[34] A wide range of literature has addressed the tendency for institutions to encapsulate and propagate conditions prevalent at inception.[35] Japan's position within the IMF has been similarly limited, and United States' position strengthened, by path dependencies within the institution.

Several factors deserve attention. First, American preponderance has been locked in by virtue of logistics. IMF headquarters have been located in Washington, DC since the institution was created. The advantages for a host country of supporting the headquarters of an international institution are immense, especially if located in the nation's capital. Such advantages may include: 1) Easier and rapid access to the activities of the institution in terms of research, data, and human capital; 2) Opportunities for informal networking among members of the host country government and the international institution; 3) Ideological influence through immersion of the institution's staff in the host country's academic, journalistic, and social sources of information.

[33] Calomiris, Charles W. *Statement Before the Joint Economic Committee, United States Congress*. 24 February 1998. <http://www.house.gov/jec/hearings/imf/calomiri.htm> (19 May 2001).
[34] Cohen, *Organizing the World's Money*, 90.
[35] See, for example, Ruggie, John Gerard (*Constructing the World Polity*. New York: Routledge, 1998) and Goldstein, Judith ("International Law and Domestic Institutions: Reconciling North American 'Unfair' Trade Laws." *International Organization* 50, no. 4 (Autumn 1996): 541-564).

The close relationship between the US and the Bretton Woods institutions gave rise to the so-called "Washington Consensus" (note the location-centered naming) espousing sound macro and liberal market policies as prerequisites to economic growth. The Japanese financial authorities have consistently preferred a more cautious approach that reins in rather than lets loose market forces, but their voices have been muted.[36] Second, as the result of an early compromise, the managing directorship of the IMF has historically gone to a European national, and the US exercises a *de facto* veto over the managing director nomination.[37] Third, IMF employees still continue to consist largely of US or UK nationals or people educated in those countries, at the expense of Japanese influence.[38] Finally, Japanese and Asian interests are severely underrepresented in the IMF at the official level. Partly as a side effect of the AMF debacle, IMF quotas were increased in 1998 and redistributed to better reflect economic realities.[39] Prior to this redistribution at the onset of the Asian Crisis, Japan and Germany had the same share of quotas at 5.6% and South Korea's share stood directly below that of Libya.

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Thus, the AMF can be seen as an attempt by Japan to overcome its inability to obtain preferred policy outcomes via the IMF. Sakakibara mentions several instances during which the Japanese authorities unsuccessfully lobbied the IMF to shift away from severe austerity measures, especially in reference to Indonesia. In Indonesia, he says there were two options – 1) a "large" package aiming to accomplish major structural reforms such as the elimination of wasteful national projects, a major reduction of subsidies, and a rapid restructuring of the financial sector, or 2) a "small" package focusing on stabilization of the exchange rate through cooperative interventions in the currency market. MOF supported the second option, seeing large-scale reform under President Suharto as unrealistic and believing the IMF should stay out of political and structural issues. The IMF ignored the Japanese position and went ahead with the "large" package.[40] Japanese authorities also supported capital outflow controls like the ones imposed by Malaysia in 1998 and also used at the early stages of the Thai crisis, another policy the IMF refused to endorse.[41]

The Thai rescue package highlighted these issues for two specific reasons. First, US non-participation in the package increased Japanese (and Asian) frustration over the ability of the US to nonetheless obtain its preferred policy outcomes – harsh conditionalities and long-term structural reforms oriented towards market liberalization. Second, large bilateral commitments from Asia demonstrated that

[36] Sakakibara, *Nihon to Sekai ga Furueta Hi*. One exception is the World Bank report on the Asian Growth Miracle published in 1993. See World Bank. *The East Asian Miracle: Economic Growth and Public Policy*. New York: Oxford University Press, 1993.
[37] Thacker, Strom C. "The High Politics of IMF Lending." *World Politics* 52 (October 1999), 41-42.
[38] Ferguson, Tyrone. *The Third World and Decision Making in the International Monetary Fund*. New York: Printer Publishers, 1988. Pp. 92.
[39] International Monetary Fund. *IMF Board Submits Resolution to Governors for 45 Percent Quota Increase*. Press Release Number 97/63. 23 December 1997. <http://www.imf.org/external/np/sec/pr/1997/pr9763.htm> (8 May 2001).
[40] Sakakibara, *Nihon to Sekai ga Furueta Hi*, 196.
[41] Sakakibara, *Nihon to Sekai ga Furueta Hi*, 165.

the region could provide sufficient liquidity without relying on IMF resources:

Table 1: Composition of the Thai Rescue Package by Source

	Share of the Thai Rescue Package by Commitment (%)*	Voting Power in IMF as represented by Quota (%)
Japan	23.3	5.6
Singapore	5.8	0.2
Australia	5.8	1.6
Malaysia	5.8	0.6
Hong Kong	5.8	0.0
China	5.8	2.3
South Korea	2.9	0.5
Brunei	2.9	0.1
Indonesia	2.9	1.0
Total	61.0	12.0

*Remainder: IMF – 23.3%, WB – 8.7%, ADB – 7.0%

Source: IMF and Japanese Ministry of Finance[42]

Bilateral commitments to the Thai package accounted for 61% of the total funds (55.2% from Asian nations) compared to a mere 23.3% provided by the IMF. Notably, the contributing countries accounted for a mere 12% of IMF quotas, far short of the US share of 18%.

Thus, the Thai rescue package convinced Japanese financial authorities that the AMF idea was both feasible and in line with Japanese interests. The AMF would have allowed Japan to shape policy outcomes more effectively in line with its preference towards easy credit.[43] Japan and other Asian countries would gain greater leverage to soften or change the focus of conditionalities. Additionally, the AMF could help provide a greater headline figure for the bailout package to calm markets and disburse funds more flexibly.

In order to make the AMF proposal palatable to the US, however, Japanese policy makers claimed that the institution would act in sync with the IMF and not provide easy credit. This created a conundrum – if the AMF would not act autonomously of the IMF, its existence was moot, and increasing IMF quotas would have sufficed. Thus, to the eyes of many, the AMF proposal appeared half-baked and devoid of meaning. Sakakibara mentioned in an interview, however, that he indeed wanted to act independently and pursue policies different from the IMF.[44]

In turn, the United States opposed the AMF because its preferences led it to emphasize moral hazard concerns and it feared that easy liquidity would allow Asian economies to postpone important domestic reforms. The US opted to maintain the IMF-centered approach through which it could impact policies much more effectively in line with its own preferences. Thus, the Manila Framework underscored the primacy of the IMF.

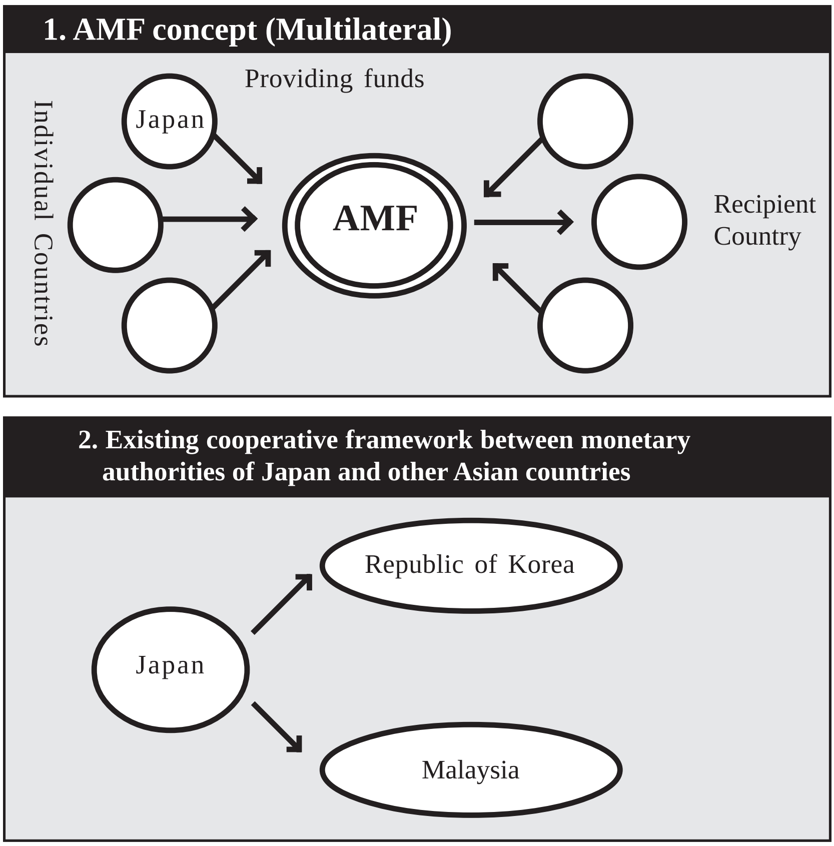
III. Conclusion – Prospects for an AMF

As this brief exposition demonstrates, debates over the AMF proposal have revolved around distributive political issues rather than the quintessential question of economic efficiency. Economically, does an AMF make sense? There is no *prima facie* rationale for why the world should only have one Fund. Although serious academic work on this topic is scarce, most criticisms focus on the potential for the AMF to undermine IMF leadership and provide overly loose liquidity.[45] As this paper has demonstrated, the definition of “overly loose” is relative.

[42] Data available at http://www.imf.org and http://www.mof.go.jp (accessed 11/18/00)
[43] For a more detailed exposition on this point, see Hamada, Koichi. “From the AMF to the Miyazawa Initiative: Observations on Japan’s Currency Diplomacy.” *The Journal of East Asian Affairs* XIII, no. 1 (Spring/Summer 1999), 33-50.
[44] Former MOF Official, Personal Interview, 20 September 2000.
[45] See, for example, Lewis, Jeffrey. “Asian vs. International: Structuring an Asian Monetary Fund.” *Harvard Asia Quarterly*. March 1999. <http://www.fas.harvard.edu/~asiactr/haq/199903/9903a005.htm> (22 October 2000).

Institutional aspects of the IMF may in fact be conducive to *underprovision* of liquidity in Asia compared to the collectively optimal point. Koichi Hamada has demonstrated that in theory, an AMF would *ceteris paribus* shift the regional norm towards greater liquidity provision.[46] Since there is some reason to believe that US inclinations towards moral hazard and Asian under-representation within the IMF currently skew the policy outcome towards underprovision, the AMF may in fact represent an economically favorable solution.

What are the prospects for a future AMF? Although US/IMF opposition stymied the initial AMF proposal, Japan seems to be taking steps towards eventual implementation. In late 1998, when Japan unveiled the "New Miyazawa Initiative," a $30 billion aid measure to resuscitate the crisis economies, $15 billion was earmarked as short-term funds to be used to provide temporary liquidity to countries under crisis. In a clear break from IMF orthodoxy, a significant portion of these funds was earmarked for Malaysia, a country stubbornly resisting IMF dictates and imposing capital controls. Building off of this tentative foundation, in May 2000 Japanese Finance Minister Kiichi Miyazawa introduced what has come to be known as the "Chiang Mai Initiative."[47] This initiative would "establish a network of bilateral swap and repurchase agreement facilities among ASEAN countries, China, Japan, and the Republic of Korea."[48] Although the official statement carefully mentions that the initiative "differs from creating a new multilateral international organization, like the Asian Monetary Fund (AMF),"[49] the two initiatives share identical goals – to help participating economies avoid balance-of-payment crises by making emergency liquidity readily and easily available.[50]



[46] Hamada, "From the AMF to the Miyazawa Initiative."
[47] Castellano, "Rapid Recovery in Southeast Asia Strengthens Japan-ASEAN Economic Relations."
[48] Ministry of Finance (Japan). The Council on Foreign Exchange and Other Transactions, *The Road to the Revival of the Asian Economy and Financial System – Sustainable Growth in the 21st Century and Building of a Multilayered Regional Cooperative Network*. 20 June 2000. <http://www.mof.go.jp/english/if/if022a.htm> (15 May 2001), Appendix 8 (6).
[49] Ibid.
[50] Castellano, "Rapid Recovery in Southeast Asia Strengthens Japan-ASEAN Economic Relations."

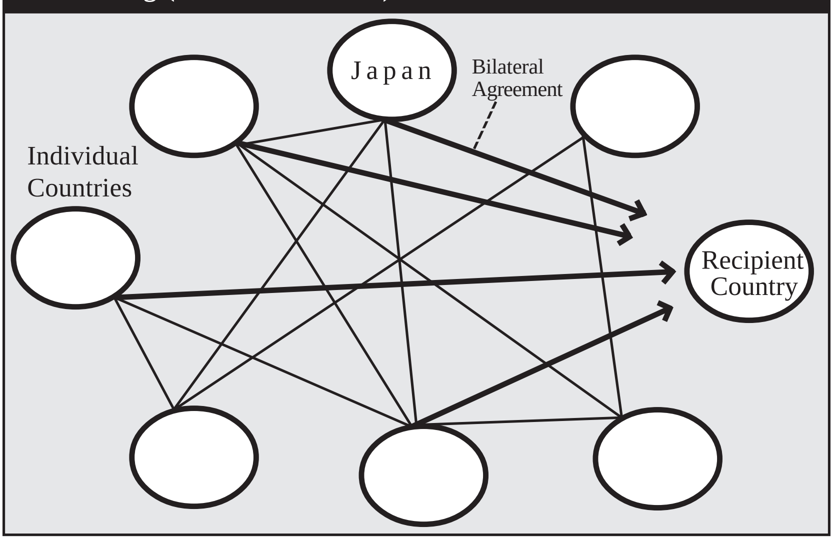
MOF provides the chart on the following page to demonstrate the structural differences among the AMF, the short-term portion of the New Miyazawa Initiative, and the Chiang Mai Initiative. This chart, however, may provide a more convincing account of the *similarities* between the AMF and the Chiang Mai Initiative as well as Japan's use of the short-term portion of the New Miyazawa Initiative as a steppingstone to expand the regional swap network (see Charts).

When implemented, the Chiang Mai Initiative would help shore up the foreign reserves of countries under crisis by allowing currency swaps between participating countries. For example, if the baht came under pressure, the Thai government would be able to tap the huge foreign currency reserves of countries like Japan and China and swap baht for dollars or yen or another key currency. By virtue of its existence, the initiative would provide a disincentive to speculate against any protected currency.

Without observing future developments, definitive answers about whether the Chiang Mai initiative will develop into a full-fledged institution are difficult to provide. As it stands, however, the initiative is bound to be plagued by collective action problems under a highly ambiguous and decentralized decision-making structure. Reliance on IMF leadership and surveillance may serve as a temporary solution, but calls for centralization resembling an AMF are bound to emerge from countries unfavorably inclined towards the Bretton Woods institutions (most notably Malaysia).

However, the distributive nature of the liquidity provision vs. moral hazard tradeoff at the international level necessarily biases the US and the EU against the creation of an AMF. The US would prefer not to see structural reforms in Asia postponed further and is disinclined about giving up the global leverage that comes with domination over a single Fund. One solution would be to depoliticize the IMF or alter the decision-making structure to be more conducive to Asian influence. Alternately, an AMF could be created with a structure similar to the ADB – the US and EU nations would be included, but power would be shared more equally than the *status quo* in the IMF.[51] These solutions would both require a greater willingness on the part of the US to allow for Asian influence in the event of a future crisis in the region. The preceding analysis indicates that the US will be

3. Financial cooperation recently agreed at the ASEAN 3 Meeting (Bilateral Network)



Source: MOF, *The Road to the Revival of the Asian Economy and Financial System*

[51] One former Japanese senior official suggests that this may be the most practical policy. Personal Interview, September 2000.

disinclined towards these solutions. However, in the context of heightened hostility towards the IMF/US in Asia following the Asian Crisis and a much more assertive Japanese financial policy, the US may increasingly find such inclusive compromise solutions more palpable. The IMF will continue to be important in terms of facilitating the unified involvement of creditor nations during major international crises. However, an AMF or a similar arrangement may be more effective in dealing with regional contingencies that tend to bias the US excessively towards moral hazard concerns without allowing the Asians to assume greater decision-making influence over the IMF.