Research Papers and Policy Recommendations

on

Economic Surveillance and Policy Dialogue in East Asia

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Chapter 1: Introduction

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1. Structure of the Report

The objectives of this report are to review the existing regional and global surveillance frameworks, to assess them, and to recommend a new framework for East Asia. Surveillance has become a focus of professional studies in the region, in connection with increased levels of monetary cooperation. A word "surveillance" may sound like intelligence gathering for security or military purposes. However, in the international financial world, economic surveillance is used for economic reviews of a country, particularly those conducted by international organizations. Surveillance is conducted to judge whether economic policy of a member country is in good conditions. If not, some recommendations in the form of peer pressure will be applied. Establishing frameworks for frequent exchanges of views among the region's financial officials is an obvious first step for meaningful financial cooperation. Policy dialogue is essential to this process. Hence, surveillance is a key to form a group of countries to cooperate in financial and monetary issues, since any financial and technical assistance has to be based on mutual sharing of information and trust of good conduct. The report should be a basis for expanding financial cooperation in Asia.

The rest of this section will put surveillance in perspectives by defining it and discussing the significance. Section 2 will be devoted to the review of the existing institutions and framework that conducts surveillance. The survey will encompass both global and regional frameworks. Assessment of these frameworks will be done in Section 3. Section 4 consists of a set of recommendations.

2. What is Surveillance?

The first step of surveillance is collecting and sharing information that is relevant to evaluate economic prospects and risks. The importance of disclosing important data can be illustrated in the history of crisis events. Last bits of hard currency and time to craft a rescue package was lost because surveillance was conducted at the last minute of crisis. Mexico, Thailand, and Korea that were affected by severe reversal of capital flows attempted not to disclose true numbers of foreign reserves. Up to the Asian currency crisis, it was often difficult to obtain the most basic fundamental statistics of some developing countries.

Economic surveillance goes beyond just collecting and sharing information. Assessments of members' economic conditions, identification of risks and vulnerabilities, and appropriate policy recommendations are a part of surveillance. Recommendations can be in the form of peer pressure in most of the time. But, they should be part of conditions that any financial cooperation is carried out in a crisis period. From time to time, mechanisms to enforce committed policy changes will be needed.

Surveillance requires frank and candid exchanges of views, with mutual trust among member countries, and a strong sense of collective action, which can induce good policies that are conducive to national, regional and global, economic growth and stability. Regional surveillance is complementary to national and global surveillance.

There are three different levels of “Economic Surveillance and Policy Dialogue” depending on the levels of commitments on the part of participating countries:

- Information sharing;
- Peer review and peer pressure; and
- Conditions for contingent credit line.

These three levels are also considered as evolutionary stages of “Economic Surveillance and Policy Dialogue” as other complementary frameworks—such as regional financing arrangements and exchange rate policy coordination—evolve over time.

- ***Information sharing.***

Information sharing is the weakest form of policy dialogue. Nonetheless, policy dialogue for information sharing, particularly with regard to attitudes and views on economic performance and policymaking, is an obvious first step for further policy dialogue. With more accurate and timely information available concerning neighbors’ economic conditions, policy options, constraints and objectives, each economy in the region would be able to form a better—more informed—policy. In addition, it provides an opportunity for mutual learning because one country’s successful or failed experiences can be useful for others in their policymaking. Finally, closer dialogue among policymakers would be a prerequisite to successful coordination for joint action, because it nurtures a sense of trust and community among them. Without frequent contacts and meetings for policy dialogue it would be difficult to establish mutual trust, which is an essential ingredient of any successful coordination.

Information sharing is part of any higher-level economic surveillance because it provides a basis for further policy dialogue, analyses, assessments, policy advice, peer pressure and due diligence. For example, any country needs to share information across different ministries and the central bank for national surveillance—though such a term is rarely used—in its policymaking. The G7 Finance Ministers and Central Bank Governors process, the OECD processes (Economic Policy Committee, the Economic Development Review Committee and Working Party 3), the European Union’s multilateral surveillance process (conducted by ECOFIN and the Economic and Financial Committee), and the global, regional and national surveillance conducted by the IMF all involve information sharing. The type of economic information to be colleted and shared may differ depending on the objectives of policy dialogue. But generally speaking, they should include: (a) macroeconomic developments and policy changes; (b) financial market developments including exchange rates, interest rates, capital flows, foreign exchange reserves and banking sector performance; and (c) institutional and legal changes

- ***Peer review and peer pressure.***

The OECD process uses a framework of "peer review and peer pressure." The OECD describes these concepts in an eloquent way:

> "Peer review can be described as the systematic examination and assessment of the performance of a State by other States, with the ultimate goal of helping the reviewed State improve its policymaking, adopt best practices, and comply with established standards and principles. The examination is conducted on a non-adversarial basis, and it relies heavily on mutual trust among the States involved in the review, as well as their shared confidence in the process. When peer review is undertaken in the framework of an international organization—as is usually the case—the Secretariat of the organization also plays an important role in supporting and stimulating the process. With these elements in place, peer pressure tends to create, through this reciprocal evaluation process, a system of mutual accountability" (OECD 2003).

"Peer pressure" can thus be characterized by the "influence and persuasion exercised by the peers" during the peer review process (OECD 2003). The peer review process can give rise to peer pressure through, for example: (a) a mix of formal recommendations and informal dialogue by the peer countries; (b) public scrutiny, comparisons, and, in some cases, even ranking among countries; and (c) the impact of all of the above on domestic public opinion, national administrations and policymakers. It is important to note that peer pressure does not take the form of legally binding acts, sanctions or other enforcement mechanisms. In essence, the objective of "peer review and peer pressure" is, through a means of soft persuasion, to induce each country to improve its policymaking, adopt best practices, and comply with established standards and principles.

A good peer review is expected to have several features (Witherell 2004). First, it is a "policy dialogue among equals." It is a "two-way, open, frank and constructive dialogue" as opposed to a "one-way lecture" or a "hearing by a superior entity" that might deliver a binding judgment or punishment. Second, it aims at "transparency." While the process is "collegial, informal and confidential" that can involve sensitive issues, the final outcome is usually made open to the public so that outsiders may understand the nature of, and make comments on, the process. Third, it is a "non legally-binding" process. This feature is particularly suited in situations where traditional enforcement mechanisms may, on occasion, have the unintended and opposite effect of breeding animosity. Fourth, it requires a high-quality secretariat. An effective peer review process requires a very dedicated and specialized secretariat to conduct professional, objective and neutral analyses and assessments and to make effective, realistic policy recommendations. The G7 process relies on the IMF, the OECD processes rely on the OECD, and the European Union process (Monetary Committee and ECOFIN) rely on the European Commission, for their respective secretariat functions.

- ***Conditions for Contingent Credit Line.***

Policy dialogue with the element of due diligence is the strongest form of economic surveillance.[1] It involves analyses and assessments of potential borrowing economies through the lens of a potential lender. If an ASEAN+3 member affected by a currency attack and speculation requests liquidity assistance within the framework of the Chiang Mai Initiative (CMI), the group must agree on conditionalities attached to liquidity assistance. As regional financial cooperation moves to the creation of an enhanced CMI—or a liquidity arrangement that goes beyond the current CMI—that is more independent of IMF, a moral hazard issue poses a strong case for the due diligence of potential borrowers, and for a clear need for specific enforcement mechanisms.

An appropriate reference for "conditionality for contingent credit line" would be IMF Contingent Credit Line, which was introduced in 1999 but expired in 2003. The objective of IMF Article IV consultation is to "examine all aspects of the member's economy that cause the exchange value to be what it is and to evaluate the economy's performance candidly for the entire membership" (Driscoll 1996).[2] This surveillance is based on the "conviction that strong and consistence domestic economic policies will lead to stable exchange rates and a growing and prosperous world economy." This consultation itself does not involve any enforcement mechanism, but every Article IV staff report is submitted for scrutiny and detailed discussions to the Executive Directors' Board Meeting in Washington, thereby applying peer pressure to the country concerned.[3] When a member country falls suddenly into serious economic difficulty or is believed to be following practices inimical to the interests of other members, the Managing Director may initiate additional consultations, which can involve more intensive assessments of the country. A strong enforcement mechanism sets in once the IMF provides liquidity to a member country in a BOP or currency crisis. The IMF demands extensive flows of information to perform "due diligence" and to intensify the monitoring of the borrower to ensure compliance with conditionalities during the program period.

A mere peer review or peer pressure process cannot provide an effective incentive to commit member countries to such intense form of cooperation. Availability of liquidity assistance at times of difficulties provides incentives on the part of potential borrowers to subject them to such a high level of collective action. A country review and assessment should be conducted with the notion that the country in question may be exposed to future difficulties or crises that would require liquidity assistance. This possibility makes the policy dialogue process one of "due diligence," particularly vis-à-vis potential borrowers—i.e., developing and emerging market economies. In contrast, policy dialogue with highly developed countries would continue to take a "peer review and peer pressure" approach because chances are small that they would encounter a BOP crisis and request liquidity assistance. Nonetheless they must be subject to intensive reviews so that they would pursue good policies that can contribute to

[1] An even stronger form of economic surveillance may exist once there is a move toward an economic and monetary union a la Western Europe. But this type of economic surveillance is a long-term agenda for East Asia and not relevant in the short to the medium term.

[2] In the early years of the IMF, periodic Article IV consultations were mandatory only for members that had placed restrictions on currency exchange, but since 1978 the IMF has been undertaking them with all member countries (Driscoll 1996).

[3] The IMF promotes "transparency" by encouraging each member country to agree to placing the Article IV consultation report on the IMF website.

regional and global economic stability.

3. Why is surveillance needed?

Surveillance is needed in the two different senses. First, effective surveillance can prevent a crisis, or at least to reduce the probability of a crisis. Second, effective surveillance is a key to manage a crisis, once happened, better. At the outset of the crisis, precious time tends to be lost if true conditions of the economy is not known. No international financial institutions or advanced countries would lend to a country which accurate financial pictures are not shown. Regular surveillance will release rescue funds more quickly if appropriate. In the face of a crisis, a debate tends to occur whether a lender of the last resort (LLR) function should be utilized or the private sector involvement (PSI) should be utilized. The former is a mechanism to inject lots of hard currency liquidity to reassure investors not to withdraw funds from a crisis country. This strategy is most appropriate and effective if the crisis is of the liquidity type. If the country has more fundamental problems, basically the government and financial institutions are insolvent, mere injection of funds would not save the country, but the losses would become much larger. In order to distinguish the liquidity type crisis from the insolvency crisis, constant surveillance is desired. A quick surveillance after the crisis has already occurred tends to gross over the problems, rather than to go deep into the problem.

In the context of financial cooperation in East Asia, any possible reform of the CMI—reducing the percentage of the IMF linkage, or multilateralizing the CMI trigger, or pooling of foreign reserves—require enhanced surveillance. Currently, there is no centralized organization or standardized criteria that would judge whether carrying out swaps is appropriate in the case of needs. Therefore, more surveillance is needed to enhance a cooperative mechanism in East Asia.

Surveillance will make the cooperation much more productive, deeper, and efficient. The process of surveillance itself will promote mutual trust and cooperation. Officials in developing countries in East Asia will be acquainted with international standards of economic analysis and evaluation.

Countries that agree to surveillance are likely to receive more trade and investment, as investors will be reassured for good governance. Hence, surveillance is not just for crisis prevention or crisis management, but to make the economy stronger and more robust against various shocks. In sum, surveillance will make possible speed up deeper integration.

4. Who should do the regional surveillance?

Once strengthening surveillance is agreed upon, the next question is who should carry out regional surveillance. A group of experts and support staff is needed to carry out analysis and evaluation of countries' economic health. For an effective surveillance, independence and neutrality of the staff has to be guaranteed, so the staff can make honest evaluation of a country even if the country may be a big country in the region. In addition, the staff should be given a clear mandate for surveillance.

It is often difficult to decide where a new international organization should be located. The government takes it as a prize to invite an international organization. In one sense competition for the location is good, because we may expect some favorable assistance from a host country. However, it is often difficult to make the decision because competition may lead to a mutual veto. Where the secretariat should be located will be examined at the end of this report.

Chapter 2:
Existing Framework

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(A) Review of the existing process under the ASEAN+3 framework

1. Manila Framework

The Manila Framework ("A New Framework for Enhanced Asian Regional Cooperation to Promote Financial Stability") was established in Manila on 18-19 November 1997 in order to develop a concerted approach to restoring financial stability in the region. The Manila Framework had meetings twice a year from 1997 to 2001, and once a year from 2002 to 2004, then it was terminated at the meeting held in Jog Jakarta, Indonesia on 1-2 December 2004. The participant countries included Australia, Brunei Darussalam, Canada, People's Republic of China, Hong Kong SAR of China, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, and the United States. The International Monetary Fund, World Bank, Bank for International Settlements, and Asian Development Bank also attended the meeting. Finance and Central Bank Deputies of the countries participated in the meetings.

The Manila Framework was established with the participant countries' agreement on the need and desirability of a framework for regional cooperation to enhance the prospects for financial stability. This framework, which recognizes the central role of the IMF in the international monetary system, includes the following initiatives: (a) a mechanism for regional surveillance to complement global surveillance by the IMF; (b) enhanced economic and technical cooperation particularly in strengthening domestic financial systems and regulatory capacities; (c) measures to strengthen the IMF's capacity to respond to financial crises; and (d) a cooperative financing arrangement that would supplement IMF resources.

The Manila Framework established a mechanism for regional surveillance, which was complementary to the global surveillance of the IMF. This mechanism provided a basis for a more intensive and high-level process of surveillance and dialogue among participating finance ministries and central banks with support from the IMF, World Bank, and ADB. Meetings for this purpose were held twice a year in order that the participant countries exchanged their views about macroeconomic policies, structural policy, exchange rate policy, and banking and financial systems.

The Manila Framework Group regards its regional surveillance as a complementary with surveillance by the IMF as well as ASEAN surveillance process. It is recognized that efforts to enhance regional surveillance must also be complemented by measures to strengthen the architecture of the international financial system. It is contrast to the ASEAN+3 surveillance process where the IMF is not invited.

2. ASEAN+3 Finance Ministers Meeting

The ASEAN+3 Finance Ministers Meeting has been held once every year since the first meeting held in Manila, the Philippines on 30 April 1999 in order that Finance Ministers should discuss about currency and financial issues in East Asia. The meeting is as a rule held at the same time with the Asian Development Bank (ADB) annual meeting. The participant countries include ASEAN (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam), People's Republic of China, Japan, and Korea.

In the last meeting in Jeju, Korea on 15 May 2004, they exchanged views on recent economic and financial developments and policies and took note of the report of ADB President on the economic outlook of the region. They also discussed the progress of regional financial cooperation, including, the Chiang Mai Initiative (CMI), the Asian Bond Markets Initiative (ABMI), the ASEAN+3 Research Group, and monitoring of capital flows.

3. Informal ASEAN+3 Finance and Central Bank Deputies Meeting (Informal AFDM+3)

The ASEAN+3 Finance Deputy Ministers Meeting, ASEAN+3 D Meeting, has been held twice every year since the first meeting held in Yangon, Myanmar in April 2002 for the purpose of their mutual surveillance and exchange of their views on macroeconomic and structural problems. The participant countries include ASEAN (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam), People's Republic of China, Japan, and Korea. They have no regular secretariats for the AFDM+3 D Meeting. Instead, a chair country plays a role as a virtual secretariat. They make the ADB address a report on current economic situation in each of the ASEAN+3 countries every meeting although they have an option to invite the IMF as a presenter of the current macroeconomic situation and they do not take the option.

At the AFDM+3 D Meeting, the Deputies exchange their views after the ADB makes presentation macroeconomic and structural issues in the world economy, the regional economy, and individual country economies. The ADB focuses on GDP growth rates and other macroeconomic and financial indicators of the ASEAN+3 countries. In addition, each of the participant countries makes presentation of their own economic situation and response to questions from other participant countries. The presentation includes its current economic situation, monetary and fiscal policies, structural reforms in the financial and corporate sectors, and the assessment by International Financial Institutions such as the IMF and their response to the assessment.

Related with the surveillance, they discuss how they will be able to make surveillance more effective in the surveillance process. ASEAN+3 countries respond to the chair of the meeting based on the template, and discussions are based on these self-declared reports. Chairs are rotating, and one of them is from ASEAN and another from the Plus 3 countries. In addition, they discuss common economic issues among the ASEAN+3 countries. At the last meeting, they exchange their views on effects of oil price increases on individual economies. The presentation was made by not the expert in the specific field but the ADB.

Moreover, the ADB makes presentation of also the Early Warning System that it is building by itself.

4. APEC Finance Ministers Meeting

The Asia-Pacific Economic Cooperation (APEC) Finance Ministers Meeting has been held once every year since the first meeting held in Honolulu, the United States in March 1994. The APEC Finance Ministers Meeting is held to discuss about economic issues related with macro economy and capital flows. At the 1997 APEC Finance Ministers' Meeting in Cebu, it was agreed that Deputies would prepare a Voluntary Action Plan (VAP) for promoting the freer and more stable flow of capital in the APEC region. The objectives of the VAP include enhancing APEC economies' understanding of the benefits and risks associated with cross-border capital flows; developing a sound understanding of the policies needed to maximize the benefits and minimize the risks associated with cross-border capital flows; and encouraging the implementation of policies to promote robust and open economies in the APEC region. The other policy initiatives include Managing Regulatory Change in Life Insurance and Pensions, Pathfinder Initiative on Corporate Governance, Insolvency Law, APEC Privatization Forum, APEC Initiative on Alternative Remittance Systems, APEC Finance and Development Program, APEC Future Economic Leaders' Think Tank, and Development of Securitization and Credit Guarantee Markets.

The APEC member includes Japan, People's Republic of China, Taiwan, Hong Kong, Korea, Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Canada, the United States, Mexico, Chile, Peru, Australia, New Zealand, Papua New Guinea, and Russia. The IMF, the World Bank, the ADB, and the Inter-American Development Bank attend the meeting.

5. ASEM Finance Ministers' Meeting

The Asia-Europe Finance Ministers' Meeting (ASEM FNMM) has been held since the first meeting in Bangkok, Thailand on 19 September 1997 in order to strengthen linkages between Asia and Europe and to progress further economic and financial cooperation between Asia and Europe. The second meeting was held in Frankfurt, Germany on 15 and 16 January 1999. The third meeting was held in Kobe, JAPAN on 13 and 14 January 2001. The fourth meeting was held in Copenhagen, Denmark on 5 and 6 July 2002. The fifth meeting was held in Bali, Indonesia on 5 and 6 July 2003.

The agenda of the meetings included macroeconomic outlook and foreign exchange markets, European Economic and Monetary Union, cooperation in the financial and other sectors, and strengthening the international financial system. The ASEM has also Deputy Ministers Meeting where they conduct economic surveillance among the participant countries.

Originally, the ASEM member included 10 Asian nations (Japan, China, Korea, Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam) and 15 Member States of the European Union (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom), and the European Commission. The membership was expanded by 2004 to include Cambodia, Laos, Myanmar, and 10 other EU countries. The IMF, the World Bank, the ADB, and the ECB also attends at the meetings to make presentation of their views on the economic, financial, and currency issues in Asian and Europe.

6. EMEAP Governors' and Deputies' Meetings

The EMEAP, the Executives' Meeting of East Asia-Pacific Central Banks, was established in 1991 as a cooperative organization of central banks and monetary authorities in the East Asia and Pacific region. Its primary objective is to strengthen the cooperative relationship among its members. It comprises the central banks of eleven economies: Reserve Bank of Australia, People's Bank of China, Hong Kong Monetary Authority, Bank Indonesia, Bank of Japan, the Bank of Korea, Bank Negara Malaysia, Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore, and Bank of Thailand.

The EMEAP has activities at three levels: Governors' Meetings, Deputies' Meetings, and working groups. The EMEAP Governors' Meetings have been held on an annual basis since its establishment in 1996. One of the important functions of Governors' Meetings is the exchange of ideas and information regarding recent economic and financial developments in the region. At the Governors' Meetings, they discuss mainly about policy issues and macroeconomic surveillance by focusing on GDP, prices, balance of payments, and long and short interest rates.

The EMEAP Deputies' Meetings, which has been the core forum of EMEAP since 1991, are held twice a year. Given that the Governors' Meetings are held only once a year, Deputies' Meetings play an important role in ensuring the continuity of the EMEAP activities and closely follow the quickly changing economic and financial movements in the region. The Deputies' Meetings review economic and financial developments in the region focusing on specific issues relevant at the time.

Since their establishment in 1996, the EMEAP working/study groups, each comprised of experts on respective issues, have made significant progress in each area. They were re-organized into new working groups: WG on Payment and Settlement Systems (WG/PSS), WG on Financial Markets (WG/FM), WG on Banking Supervision (WG/BS), and the IT Directors' Meeting (ITDM). The WG on Payment and Settlement Systems studies the development in domestic and cross-border payment and settlement systems. The WG on Financial Markets studies central bank services and the developments of foreign exchange, money, and bond markets. The WG on Banking Supervision studies banking supervision issues.

7. SEACEN Expert Group (SEG) on Capital Flows

The South East Asian Central Banks (SEACEN) Research and Training Centre was established in 1982 with eight member central banks (Bank Indonesia, Bank Negara Malaysia, Central Bank of Myanmar, Nepal Rastra Bank, Bango Sentral ng Pilipinas, Monetary Authority of Singapore, Central Bank of Sri Lanka, and Bank of Thailand). It has grown to thirteen members with inclusion of the Bank of Korea, the Central Bank of China, Taipei, the

Bank of Mongolia, Ministry of Finance, Brunei Darussalam, and Reserve Bank of Fiji. The SEACEN Centre is located in Kuala Lumpur, Malaysia.

The SEACEN Centre reviews and analyses financial, monetary, banking and economic developments in its constituent member countries and in the region as whole. It initiates and facilities cooperation in research and training relating to the policy and operational aspects of central banking. In addition, the SEACEN Centre also undertakes an annual economic survey.

The SEACEN Expert Group (SEG) on Capital Flows was established by the SEACEN Centre in May 2000, in response to the concern expressed by the SEACEN Governors at the January 2000 Conference in Kuala Lumpur, over the need to manage capital flows to ensure stability in regional financial markets. At its 20th Meeting in Singapore on 1 June 2001, the SEACEN Board of Governors (BOG) also approved the proposal by the SEG to set up an electronic data exchange facility at the SEACEN Centre.

The main objectives of the SEG are to develop a regional framework to promote information sharing on capital flows among members and to draw up concrete and practical proposals that members can implement individually or collectively to enhance the management of capital flows.

The SEG comprises 15 member central banks, viz. the 12 SEACEN member central banks (Brunei, Indonesia, Korea, Malaysia, Mongolia, Myanmar, Nepal, Philippines, Singapore, Srilanka, Taiwan, and Thailand), and 3 SEACEN observers, namely the Reserve Bank of Australia, Hong Kong Monetary Authority and Bank of Japan. On the other hand, People's Bank of China does not participate in the SEACEN. The SEG is co-chaired by Bank Negara Malaysia and Bangko Sentral ng Pilipinas. The SEACEN Centre serves as the secretariat to the SEG. Its main role is to assist the SEG in implementing the work program as decided by the SEG, such as providing data exchange facility, processing and analyzing capital flows data as reported by members, as well as providing secretariat support to the SEG meetings.

Since its establishment in 2000, the SEG has held four meetings (in Kuala Lumpur in May 2000, Ulaanbaatar in September 2000, Kuala Lumpur in May 2001, and Ulaabaatar in June 2002). The SEG work has been focusing on three main areas, namely developing a regional framework to promote the sharing of capital flows data; assessing the methods and systems of risk management among members; and capacity building.

Specifically, as for exchange of data on capital flows, the SEG regularly report a common set of data templates to be shared among members through the SEACEN Website in order to track movements of capital flows and other related financial market data in the individual member economies. As an effective means of exchanging data, an electronic data exchange facility has been installed at the SEACEN Centre.

In addition, to promote capacity building and exchange of views and experiences, the SEG meetings included dialogues on topical issues relating to capital inflows. Core work in the SEG was severely workshops to enhance expertise in the areas of compilation and usage of international finance statistics, risk managements of capital flows and development of early warning systems.

8. ASEAN Surveillance Process

The ASEAN Finance Ministers established the ASEAN Surveillance Process in 1998. The objective of the ASEAN Surveillance Process is to strengthen cooperation by (i) exchanging information and discussing economic and financial development of Member States in the region, (ii) providing an early warning system and a peer review process to enhance macroeconomic stability and the financial system in the region, (iii) highlighting possible policy options and encouraging early unilateral or collective actions to prevent a crisis, and (iv) monitoring and discussing global economic and financial developments which could have implications on the region and propose possible regional and national level actions.

The scope of the surveillance activities includes monitoring and analyzing macroeconomic situation and developments and structural and sectoral issues within the region. All Members of the ASEAN are to provide to the ASEAN Surveillance Coordinating Unit a set of baseline data as provided to the IMF during the Article IV consultation mission.

The institutional bodies of the ASEAN Surveillance Process consist of ASEAN Finance Ministers Meeting (AFMM) and ASEAN Select Committee, comprising the members of the ASEAN Senior Finance Officials Meeting (ASFOM) and the ASEAN Central Bank Forum, form the core of the Surveillance Process. The ASEAN Surveillance Process is supported by the Finance and Macroeconomic Surveillance Unit (FMSU, formally the ASEAN Surveillance Coordinating Unit (ASCU)) based at the ASEAN Secretariat[4] in Jakarta and the ASEAN Surveillance Technical Support Unit (ASTSU) based at the ADB in Manila. The ASEAN Central Bank Forum contributes its findings and analysis on monetary issues to the surveillance process through the ASEAN Select Committee. The ASEAN Select Committee reports directly to the ASEAN Finance Ministers Meeting.

The FMSU prepares an ASEAN surveillance report and presents it to the Finance Deputies (AFDM) and Ministers (AFMM). The report consists of two parts: the ASEAN Economic and Financial Review (AEFR) and the Surveillance Issues Report (SIR). The AEFR describes the latest developments in the ASEAN economies, as a region and as an individual economy, covering the real sector, monetary and fiscal sectors, external sector, corporate and financial sectors. On one hand, the SIR focuses on and highlights emerging policy issues for discussion of the Deputies and the Ministers.

The ASEAN countries and the FMSU have been receiving capacity building support for the ASEAN Surveillance Process from the ADB through training programs on “Regional Economic Monitoring” at the ADB headquarters in Manila. Since the program started in 2000, a total of 107 ASEAN finance, central bank officials as well as ASEAN Secretariat’s staffs participated. This capacity building program has recently been extended. In addition, the ADB also provide technical assistance to six ASEAN countries to assist them in setting up their national surveillance units.

9. Supporting Institutions

[4] The ASEAN Secretariat has currently two economists and two junior economists, assisted by three project staff.

(1)REMU at ADB

The Regional Economic Monitoring Unit (REMU) was established as a unit of the ADB in early 1999 in response to the emerging needs for closer regional economic monitoring in the wake of Asian financial crisis. Its role is to help facilitate the integration of developing member countries of the ADB among themselves and into the global economy so that they can harness the benefits of globalization while minimizing the costs. The REMU prepares high-frequency reports, including the *Asia Economic Monitor*. It also provides technical assistance to build developing member countries' regional economic policy making and associated institutional capacities. Moreover, it supports regional surveillance processes through preparation of studies on regional integration, including monetary and financial cooperation. Recently, it develops and maintains the Asia Regional Information Center and AsianBondsOnline web sites.

The REMU has been supporting the Manila Framework Group, the ASEAN Surveillance Process, and the ASEAN+3 Economic Review and Policy Dialogue through the preparation of high frequency reports and special studies, capacity building, and promotion of policy dialogue. It is currently implementing a regional technical assistance for the "Capacity Building of Ministries of Finance for the ASEAN Surveillance Process" in Indonesia, the Philippines, and Thailand.

In response to the requests from the ASEAN+3 finance ministers to develop a regional Early Warning System prototype, ADB approved the small-scale regional technical assistance in June 2001. The purpose of the technical assistance was to support collaborative efforts among the ASEAN+3 countries leading to the development of a regional Early Warning System that would help detect emerging macroeconomic, financial, and corporate sector vulnerabilities, in an attempt to prevent financial crises in the future. The technical assistance financed (i) the development of a regional Early Warning System prototype, and (ii) two workshops participated in by ministry of finance and central bank officials from the ASEAN+3 countries to discuss and finalize the prototype model

(2)ADB-ARIC

The ADB established the Asia Regional Information Center (ARIC) in 1999. It began as the Asia Recovery Information Center, a concept that first emerged at the Meeting on Development Cooperation: Responding to the Asia Crisis, which was held in Sydney in March 1999. The meeting found a critical need for accurate, timely information on both the economic and social impact of the Asian crisis and how the recovery was progressing. Cross-border information was vital to decision makers deciding on how best to respond to the crisis and to sustain the recovery's momentum.

The ARIC initially covered the five countries most affected by the Asian financial crisis: Indonesia, the Republic of Korea, Malaysia, the Philippines, and Thailand. It expanded during its second phase to include the rest of the ASEAN which includes Brunei Darussalam, Cambodia, Lao PDR, Myanmar, Singapore, and Vietnam, as well as the People's Republic of China. In its third phase the South Asian countries of Bangladesh, India, Pakistan and Sri Lanka have been added.

The ARIC provides a clearinghouse of information on (i) economic and social developments, (ii) financial and corporate restructuring initiatives, and (iii) structural reforms. The ARIC monitors economic and financial indicators to identify vulnerabilities as an early warning device against potential fiscal, banking or currency crises, and helps identify the risks of external shocks from the globalized economic environment. It also provides resources on major development and emerging policy issues.

The ARIC entered its third phase in December 2003, now jointly funded by the ADB and AusAID. During Phase III, the ARIC is refocusing away from the Asian crisis and recovery per se, and moving more toward monitoring economic and financial vulnerabilities, structural reforms and emerging policy issues. The ARIC monitors information from a vast array of reputable sources including governments, financial analysts, data providers, supranational institutions, and media. As an online clearinghouse, most users prefer information accessible via the Internet. The information is processed in standardized form for easy access.

(B) Review of the Multilateral organizations and other regional experiences

Multilateral Institutions

1. International Monetary Fund

IMF is one of the most prominent international organizations for macroeconomic and financial surveillance. The Group of Seven (G7) often commissions a detailed study of economic situations to the IMF. For example, when the Soviet Union was going to be divided into a group of market-oriented CIS countries, the IMF was asked to carry out a comprehensive study. In the 1980s, the IMF was deeply involved in the resolution of debt crises in Latin America. The IMF currently has about 2,000 professional staff. Many of them have economics Ph.D.s.

In the highlighted cases of financial crises—Mexico in 1994; Thailand, Indonesia, and Korea in 1997-98—the IMF has played a crucial role in defining economic policies during the crisis, that is crisis management.

The main vehicle of IMF surveillance is Article IV reports—annual reviews of each of the member countries. One or few economists are typically assigned to the country and they typically reads the wire report as well as newspapers concerning the country on the daily basis, analyze the economy based on data—both publicly available ones and those provided by the authorities of the country on confidential basis—as well as read research reports available from academic community and public sectors, like central banks, and carries out preparation for staff visits.

The Article IV report is based on staff visits to the country as well as preparatory and post-visit research in Washington, D.C. It is prepared mainly by the relevant area department (for example, the Asia Pacific Department if the country is Japan), with supplementary support from functional departments (such as Research, Capital Markets, Fiscal, and Monetary and Exchange) depending on important issues of the country. The draft is debated in the area department, circulated among the departments, and then discussed at the management level (Managing Director, Deputy Managing Directors). The Article IV mission, headed by Department head or his/her deputies, visits the country for several weeks before completing a draft of the report.

Surveillance is more intensified, when the IMF program is introduced with conditionality—that is, a country borrows funds from the IMF with a commitment to a particular set of macroeconomic policy measures. The frequency of visits and reports is increased from an annual basis without a program to at least quarterly and sometimes monthly when the program is in place and the country is considered to be in trouble. An agreement between IMF and the country on conditionality is called the "letter of intent" (LOI), usually singed by the Minister of Finance or the Governor of the Central Bank.

IMF was criticized, sometimes fairly and sometimes unfairly, during and in the wake of the Asian currency crisis for several grounds: First, surveillance at the IMF was lax, in the sense, the IMF failed to predict the crisis coming and warn the country in time. Second, once the crisis occurred, the IMF was imposing an impossible set of conditionality on the country, and contributed to losing, rather than enhancing, credibility of the country for recovery. Third, the amount of the financial support was too small that a program did not rest the fear of investors concerning the foreign reserves. Fourth, the content of conditionality was wrong. Namely, the results of analysis and policy conditions were wrong. Although the controversy over the question whether these criticisms are valid or not has lingered until today, it has been recognized that the IMF was and still is not perfect in preventing or managing the crisis.

During the Asian currency crisis, the IMF conditionality was criticized as too ambitious and imposed on the country rather than the country volunteers to commit. Therefore, the "ownership" of the conditionality—that is, the policy measures were committed with true willingness and intent of the country—becomes an important issue in the wake of the Asian currency crisis. It used to be a case that both Article IV reports and LOI are "confidential" and the public did not know the content of the recommendations in Article IV or the details of conditionality.

IMF has improved it's structure after the Asian crisis. The process has been emphasized on data disclosure (SDDS, GDDS, PIN[5]) and on the capital markets and financial sector, in addition to macro surveillance (new Capital Markets Department, FSAP by MAE[6]). SRF, CCL, and PSI (SDRM)[7] show that the process of surveillance and crisis management has been evolved. IMF does the best surveillance when the program (financial assistance) is put together.

However IMF is not sufficient for East Asia for 4 reasons. First, Asian countries are underrepresented as seen in quota and ED chair allocation, staff promotion. Second, influence of the US (and the European countries) is too strong. Third, memory of "wrong prescriptions" has not been cast away. It has little regional expertise while Asia needs counter-balance in

[5] Special Data Dissemination Standard (SDDS) ; General Data Dissemination System (GDDS) ; Public Information Notice (PIN)
[6] Financial Sector Assessment Program (FSAP) ; Exchange Affairs Department (MAE)
[7] Supplemental Reserve Facility (SRF) ; Contingent Credit Lines (CCL, terminated in Nov. 2003) ; private sector involvement (PSI) ; Sovereign Debt Restructuring Mechanism (SDRM)

voices. Finally, IMF tends to do surveillance bilaterally; some regional surveillance is done, but very week and ineffective to prevent contagion.

2. World Bank

The World Bank is a much larger organization than the IMF, with a mandate in economic development of developing countries. It used to be the case that the World Bank finances the infrastructure projects with funds that are raised in the market. However, the Bank has gradually changed to an organization that advises macroeconomic policy as well as structural policy of developing countries. Expertise of staff ranges from economics to engineering, to city planning, and to many other disciplines.

The Bank has a large number of professional staff and many of them are stationed in the country. They are in consultation with private-sector participants of the projects as well as the government agencies. Although the financial sector, especially the structural design, has been a part of the Bank portfolio in their advise to developing countries, the Bank yields macroeconomic aspects of the policy to the IMF.

3. OECD

(1) Overview of the OECD[8]

The Organization for Economic Co-operation and Development (OECD) was established by the Convention on the OECD in 1961 in Paris by reorganizing the Organization for European Economic Co-operation, an administrative organ under the Marshall Plan. It is now made up of 30 Member countries (4 countries from the Asia Pacific area [Japan, Australia, New Zealand and Korea]) and the European Commission, and "its membership is limited only by a country's commitment to a market economy and a pluralistic democracy." It also maintains channels with some 70 non-member countries mainly through the Centre for Co-operation with Non-Members created in 1998.

The decisive feature of the OECD in comparison with the IMF and World Bank is that it does not pay money in the form of finance. The OECD can be called a policy-oriented think tank, a forum where Member countries "compare experiences, seek answers to common problems and work to co-ordinated domestic and international policies to help members and non-members deal with an increasingly globalized world….the OECD helps clarify the impact of national policies on the international community….Mutual examination by governments, multilateral surveillance and peer pressure to conform or reform are at the hear of OECD effectiveness."

The Convention on the OECD stipulates the aims as follows:

(a) to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;

[8] The information in this subsection owes mainly to the OECD homepage "Overview of the OECD: What is it? History? Who does what? Structure of the oganaization?"

(b) to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
(c) to contribute to the expansion of world trade on a mutually non-discriminatory basis in accordance with international obligations. (Article 1)

To achieve these aims, Member countries agree that they will:
(a) keep each other informed and furnish the Organization with the information necessary for the accomplishment of its tasks;
(b) consult each other on a continuing basis, carry out studies and participate in agreed projects; and
(c) co-operate closely and where appropriate take co-ordinated action. (Article 3)

In order to achieve its aims, the Organization may:
(a) take decisions which, except otherwise provided, shall be binding on all the Members;
(b) make recommendations to Members; and
(c) enter into agreements with Members, non-member states and international organizations. (Article 5)

The members meet and exchange information at committees (26 committees, headed by the Economic Policy Committee (EPC) and Economic Development Review Committee (EDRC), are listed on the web site), and the Council takes decisions as a governing body. The functions of committees are supported by some 200 working groups/parties, subcommittees, task forces and other expert groups. The Secretariat with 2300 staff, of which 700 are economists, lawyers, scientists and other professionals, works in parallel with committees. To the Secretariat belong 12 functional directorates, of which the Economics Department (and the Statistics Directorate) serves the activities of the EPC, EDRC and related working parties and sub-groups. The Economics Department publishes the Economic Outlook in June and December every year (the mandate of the EPC), and is monitoring permanently the economy of Member countries with the publication of an Economic Survey (the mandate of the EDRC). The Economics Department uses the international linkage model, Interlink, to analyze the behavior of the OECD and non-OECD economies and for other simulation purposes. The work of the Economics Department forms the basis for a process of multilateral surveillance.

(2) The Economic Policy Committee

The Economic Policy Committee (EPC), one of three major OECD committees, are open to all Member countries and the European Commission, with BIS, EFTA, IMF and World Bank as observers, and compose of senior officials of finance or economic ministries and central bank. According to the Directory of Bodies (April 2004 edition), its mandate is as follows:
(i) The EPC "will keep under review the economic and financial situation and policies of Member countries with a view to attaining the objectives of the Convention.
(ii) In reviewing the economic policy of Member countries, the Committee will pay special attention to the international effects of national policies in the light of the increasing interdependence of their economies and of the recognition that efforts of individual countries will be influenced by the actions of others, with a view to establishing a climate

of mutual understanding conducive to the harmonious adjustment of policies."

The EPC is supported by three working parties, namely, WP on short-term economic prospects, WP No.1 on macro-economic and structural policy analysis that considers in particular (i) control of demand and inflation, (ii) supply side policies and (iii) allocation and distribution of resources, and WP No.3 on policies for the promotion of better international payments equilibrium. Members of the WP No. 3 are limited to 10 countries (Canada, France, Germany, Italy, Japan Netherlands, Sweden, Switzerland, United Kingdom and United States) with BIS and IMF as observers. The mandate of the WP No.3 is as follows (an extract from the Directory of Bodies): The EPC "has considered the proposals made by the United States Delegation at its meeting on 18th-19th April 1961, for a programme of closer co-ordination of economic policy [CPE (61)2]. The Committee agrees to set up two Working Parties to deal with the problems outlined below, and to submit their findings and recommendations to the full Committee as soon as possible:

i) Policies for the promotion of economic growth…..
ii) Policies for the promotion of better international payments equilibrium

The Working Party will analyze the effect on international payments of monetary, fiscal and other policy measures and will consult together on policy measures, both national and international, as they relate to international payments equilibrium."

The *OECD Economic Outlook*, which is published in June and December each year, is discussed in the EPC before it is finalized for publication under the responsibility of the Secretary-General. The Economic Outlook contains projection for various key economic variables over coming two and half years in the OECD area as well as 30 individual Member countries and the euro area. What the OECD projections differentiate from other economic forecast or predictions is that they are projections conditional on a set of technical assumptions of exchange rates, oil and non-oil prices and stated official fiscal and monetary policies of Member governments, with "a clear focus on framing the policy debate in Member countries."[9]

The main framework of the Economic Outlook consists as follows (the case of *EO* 74, December 2003):

I. General assessment of the macroeconomic situation, which presents the OECD area-wide projections, related analysis and recommendations in monetary, fiscal and structural policy issues.
II. Developments in individual OECD countries, including the euro area
III. Developments in selected non-member economies (China, Brazil, the Russian Federation)
IV. Chapters devoted on topics of current interest (Fiscal stance over the cycle, Fiscal relations across levels of government, and Enhancing the cost effectiveness of public spending)
V. Statistical annex

The OECD Secretariat (the Economics Department) is in charge of producing the Economic Outlook, while maintaining close contact with national policy makers. Member countries may try sometimes to make their policy intentions reflected in the projections.

[9] http://www.oecd.org/faq/0,2583,en_2649_33733_1798284_1_1_1_1,00.html

Although due consideration is given to comments from Member countries, that does not mean they are automatically adopted. "In the end, the published projections and analysis reflect the independent assessment of economic conditions in the world economy by the OECD staff economists."[10]

The preparatory process can be divided in three stages. First, semiannual projection exercise starts within the Secretariat with broad exchange of views among country experts and topic specialists to ensure overall consistency. A macro-econometric model, Interlink, is employed as an analytical tool. Second, the Secretariat meets experts and policy makers of Member country governments to discuss projections and related analysis, and to test tentative conclusions against local conditions of Member countries. It is called a built-in "reality check." At this stage the main lines of projections, analysis and their policy implications are presented to the Economic Policy Committee for discussions. Third, country expertise is drawn from Economic Surveys of all Member countries.

(3) The Economic and Development Review Committee

- **Economic Survey as a tool of multilateral surveillance**

The Economic and Development Review Committee (EDRC), created in 1961, is the key forum of multilateral surveillance or peer pressure mechanism, composing of all the Member countries and the European Commission, with the Russian Federation (on ad hoc basis), EFTA, IMF, World Bank and WTO participating on an observer status. According to the Directory of Bodies, its mandate is as follows (an excerpt):

> "The Preparatory Committee recommend the establishment of an Economic and Development Review Committee which will, among other tasks assigned to it, be responsible for the annual examination of the economic situation of Member countries.
>
> The Committee would study and make comments and recommendations to the Council on the development programmes of the Member countries in the process of economic development, and advise the Council on other development problems that such Member countries may submit to the Organization, with a view to assisting the Council in ensuring that the responsibilities of the other committees charged with carrying out the tasks arising out of paragraph 4 of the Ministerial Resolution of 23rd July 1960 [OECD (60) 13] are adequately co-ordinated. The Committee would have the right to request the Secretary-General to call upon individual experts or expert groups to advise the Committee as may seem necessary in any given case."

The Economics Department prepares a draft of Economic Surveys, which is modified following the discussion of the EDRC, and at present an Economic Survey of each Member country and some selected non-member countries is published about once every 18 months (for some countries including Japan annually) under the responsibility of the EDRC. It is a key in the peer review process that the final report is one on which all 30 Member countries agree.

An Economic Survey focuses on the macroeconomic development, structural policies and key challenges that could make sustainable economic growth possible, and the essential

[10] "OECD Economic Projections," page 2, Policy Brief, OECD, June 1999

arguments as country surveillance is digested in the assessment and recommendations in each Survey. The framework of an Economic Survey looks as follows (the case of Economic Survey of Japan, 2003, published in December 2003):

Assessment and Recommendations, which focus on such issues "Is Japan's economic recovery likely to continue? How can monetary policy be made more effective? How can the banking sector be strengthened and NPLs reduced? How can fiscal sustainability be achieved? What reforms are needed for the pension scheme and the tax system? How can competition be strengthened so as to increase Japan's potential growth rate? What specific reforms are needed in key sectors of the economy? What policies are needed to enhance competition and labour market flexibility?"

I. Macroeconomic developments and key economic challenges
II. Bringing deflation to an end
III. Achieving fiscal sustainability
IV. Product market competition and economic performance
V. Further structural reforms
Annex I. The Phillips curve in Japan
Annex II. Assessment of the government structural reform programmes
Annex III. Chronology of main economic events

- **The operational process of multilateral surveillance**

The operations of the country review process is summarized in the "key elements of the agreed principles and practices" of the EDRC[11], which should be suggestive for the ASEAN+3 in establishing and refining its economic surveillance process in future. The whole text of the "key elements" is reproduced here.

"Economic and Development Review Committee
Key Elements of the Agreed Principles and Practices"

(i)EDRC and the Secretariat: Responsibilities and Roles

In carrying out its mandate, the EDRC has separate, although inter-related responsibilities:

- to meet and examine the economic developments and policies of each Member country;
- to review and modify as necessary the draft Survey of each Member country and approve the final version before publication; and
- to carry out multilateral surveillance and report where appropriate to other bodies of the Organization

The Secretariat prepares a draft Survey for the EDRC for each country being examined. The Survey is then discussed, amended and published on the responsibility of the Committee itself and as such represents the consensus of all OECD Member countries.

[11] Annex to "Peer Review: a tool for co-operation and change" by Fabrizio Panani, SG/LEG (2002) 1, OECD, 11th Sep. 2002 The Agreed Principles and Practices of the EDRC were first drawn up in 1998, with the latest set of revisions being agreed in July 2002. The full documents also reviews the internal working of the EDRC and provides more information on the desired structure and coverage of the Surveys.

(ii)Planning of Surveys

Country examinations need to take place on a regular cycle in order to carry out proper surveillance and the maximum period between reviews should not normally exceed 18 months, while for some countries annual reviews are important.

To help prepare the draft Survey, the Secretariat will visit the Member country to hold talks with senior officials, experts, and key economic players. The Secretariat will draft a written ‘questionnaire’ to assist the authorities in preparing for these meetings.

Wherever possible, the authorities should provide written responses and relevant material to the Secretariat before the start of the mission. The quality of the Secretariat’s draft Survey is heavily dependent on the co-operation of the authorities in submitting all the relevant information in a timely manner.

(iii)Documentation and preparation for the Examination

The Secretariat will prepare the draft Survey which will be made available to the country under examination at the same time as all other Member countries.

The Survey should aim to provide maximum value added to the country being examined, other Member countries and the general public, by

- promoting better understanding of the country’s economic situation and key challenges;
- enriching the economic policy debate, domestically and internationally; and
- pointing towards ways of achieving better economic performance.

Throughout the Survey, the focus should be on what the authorities can do to improve economic performance. The Survey should concentrate on those aspects of the policy and institutional framework which are most important for economic performance, even if these aspects are not on the current reform agenda of the authorities.

Policy recommendations should be sharply focused, clearly articulated and constructive and should address all the key challenges to economic policy. If second-best solutions are recommended, they should be clearly identified as such.

The Survey should explicitly follow up on recommendations made by the Committee in previous years (especially on structural matters) and outline the actions taken if any, or propose any changes to the earlier recommendations that would be appropriate for the Committee to adopt.

International comparisons and empirical analysis should be drawn on wherever possible, as these are a major source of the OECD’s value added to Member countries. Lessons from other countries experience with policies can be particularly helpful. The Surveys will also draw in and integrate relevant analysis prepared for other committees, where appropriate.

A Questions for Discussion Note is prepared for each examination by the Secretariat in close consultation with two examining countries. The note shall identify the key themes around which the discussion of each draft *Economic Survey* should be organized.

(iv)The examination itself

The examination has several objectives:

- to assess the economic situation and policies, along with the principal policy objectives and the means to achieve them, of the country being examined;
- to formulate recommendations on the policies concerned and follow up on recommendations made in previous Surveys;
- to provide guidance to the Secretariat for redrafting the *Economic Survey* to reflect the Committee's conclusions.

If in the Secretariat's view, economic trouble may be looming, the Committee expects the Secretariat to be vocal in identifying prospective problems.

The head of delegation of the country being examined will make a brief opening statement, which should cover both macroeconomic and structural themes. This statement should:

- provide a brief update on any *major* economic or policy developments since the draft *Economic Survey* was completed; and
- identify any substantive points of disagreement with the draft Assessment and Recommendations and with the analysis presented in the main text.

The two examining countries will be invited to begin the review of each part of the Questions for Discussion, which provides a guide to all participants on the most important issues and raises certain specific questions. The country being examined will then be asked to answer comments and questions put to it by the examiners.

Following the round of comments and questions from examiners and answers to them, the discussion will be opened for other Members of the Committee to make brief observations or put additional questions, and the representatives of the country being examined will be given a chance to respond. At the end of each part of the discussion, the Secretariat will be given an opportunity to respond to points raised during the discussion and specific questions directed at it.

At the end of the examination, the chair will draw the main conclusions for the major policy issues and the most important changes to the draft *Economic Survey*. Further discussion may then be needed for the Committee to reach a consensus. The Chair's conclusions should guide the subsequent redrafting of the Survey.

(v)Approval and publication of the Survey

The day following the meeting is reserved for bilateral discussions between the examined country and the Secretariat to arrive at agreed drafting on the principal points of the Survey, in light of the discussion in the Committee as reflected in the Chair's conclusions.

Following agreement between the examined country and the Secretariat on text changes, the revised Assessment and Recommendations and all parts of the main text that have been substantially and substantively revised are circulated again to the Committee for their approval. Other delegations are invited, at this stage, to circulate their reactions to the Committee if they consider that the revised draft does not fully reflect the centre of gravity of the Committee's deliberations.

The Survey will be made ready for publication as quickly as possible after the Committee has approved final drafting changes with initial release being in electronic and/or printed form depending on the circumstances. Member countries undertake to work with the

Secretariat to resolve all outstanding details as quickly as possible and if at all possible within two weeks of the meeting itself, to facilitate the publications process.

At the time of release, Policy Briefs (using the Assessment and Recommendations text) will be made available both in official languages of the OECD, as well as in third languages where the country in question has made arrangement for such release. The Secretariat will make itself available for press briefings at the time of the Survey's release."

(4) Peer Review and Peer Pressure

The General Secretariat of the OECD released a study document "Peer Review: a tool for co-operation and change-An analysis of an OECD Working Method-" prepared by Fabrizio Pagani in 2002. The study deals with such issues as what is peer review and its related concept peer pressure, how and why it works, under what conditions it can be effective. The study provides us with a valuable insight in considering a forum of peer review for multilateral surveillance in East Asia. Here are some essential arguments in the document:

- **The concept of peer review and peer pressure**

Peer review is the systematic examination and assessment of the performance of a State by other States, with ultimate goal of helping the reviewed State improve its policy making, adopt best practices, and comply with established standards and principles. Unlike judicial proceedings, peer review never implies a punitive decision or sanctions.

The effectiveness of peer review relies on the influence and persuasion exercised by the peers during the process. This effect is known as "peer pressure," which can be brought about through (i) a mix of formal recommendations and informal dialogue by the peer countries; (ii) public scrutiny, comparisons, and, in some cases, even ranking among countries; and (iii) the impact of all the above on domestic public opinion, national administrations and policy makers. The impact will be greatest when the outcome of the peer review is made available to the public. Peer pressure is particularly effective when it is possible to provide both qualitative and quantitative assessments of performance.

- **Peer review within the OECD**

Although there is no standardized peer review mechanism within the OECD, all peer reviews contain the following structural elements:

- a basis for proceeding such as Decision by an OECD subsidiary body, Council, or International norms;
- An agreed set of principles, standards and criteria against which the country performance is to be reviewed (policy recommendations and guidelines, specific indicators and benchmarks, or legally binding principles);
- Designated actors to carry out the peer review, namely, the collective body like EDRC, the reviewed country, the examiner countries, and the Secretariat; and
- A set of procedures leading to the final result of the peer review, commonly consisting of three phases (the preparatory phase, the consultation phase leading to drafting the final

report, and the assessment phase that includes the plenary meeting of the body responsible for the review)

- **The function of the peer review**

Peer review can be used in a broad range of areas (maybe except in the context of security and defense) and can serve, directly or indirectly, the following purposes:

- Policy dialogue: countries systematically exchange information, attitudes and views on policy decisions and their application. This dialogue can be the basis for further co-operation through adoption of new policy guidelines etc.;
- Transparency: the reviewed country has the chance to present and clarify national rules, practices and procedures and their rationale, on which the Secretariat develop documentation for the peer countries that is often made available to the public. The combination of two levels of enhanced transparency- toward peer countries and the public-contributes to the effectiveness of peer review and the related peer pressure;
- Capacity building: peer review is a mutual learning process in which the best practices are exchanged;
- Compliance: an important function of peer review is to monitor and enhance compliance by countries with internationally agreed policies, standards, and principles. However, unlike a traditional legal enforcement mechanism, peer review works as a sort of "soft enforcement" system, resulting in non-coercive final reports and recommendations. Examiners in the peer review have the flexibility to take into account a country's political objectives, and to look at its performance in a historical and political context.

- **When can peer review and peer pressure be effective?**

The effectiveness of peer review depends upon the combination of following factors:

- Value sharing: a strong common understanding of the criteria against which to evaluate performance will prevent uncertainty or backtracking during the process;
- Adequate level of commitment: participating countries must not only place adequate financial means at the disposal of the Secretariat. They must also be fully engaged at different times as examiners, as active members of the collective body, and as subject of the examination;
- Mutual trust: since peer review is, by its nature, a co-operative, non-adversarial process, mutual trust is an important basis for its success. The disclosure of data, information and documentation are essential to the process;
- Credibility: there is a strong linkage between the credibility of the process and its capacity to influence. The Secretariat must be independent and transparent, and the quality of its analytical work reliable. The approach that the examiners take in the review must be objective, fair and consistent. The main threat to the credibility of the process is the possibility of attempts by the reviewed State to unduly influence the final outcome. The involvement of the reviewed State is essential, but should not go so far as to endanger the fairness and the objectivity of the review, for example, by permitting to veto the adoption of all or part of the final report.

Regional Surveillance

1. The European experience from the 1970s to 1990s

(1) Multilateral Surveillance, EC Financing Facilities and Conditionality

The history of multilateral surveillance in the European Communities can be traced as far back as to the 1970s, but what was stipulated in the official documents of the Economic and Financial Affairs Council (the Ecofin) was not put into practice by Member States during the 1970s and 1980s[12]. Especially the surveillance and policy coordination in economic and fiscal fields did not function effectively until the mid 1990s, when the 2nd stage of the Economic and Monetary Union started and Member States realized the crucial importance of achieving the convergence criteria by the target year.

Although the official EC level mechanism of multilateral surveillance did not work until as recently as only a decade ago, institutional arrangements of the Monetary Committee and the Committee of Central Bank Governors within the European Communities played a vital role in reviewing and assessing the economic and financial conditions inside and outside the Community, an essential function to maintain the European Monetary System. The former contributed especially to the balance of payments and other basic issues related to international finance, and the latter to the stability of exchange rates through market interventions and monetary policy coordination.

- **The Monetary Committee and the present Economic and Financial Committee**

The "Monetary Committee pulls the policy strings,[13]" so writes the European Dialogue on the EU homepage. The Monetary Committee was created by the Treaty of Rome as an advisory body both for the European Commission and the Ecofin Council "to promote coordination of the policies of Member States (Article 114)." Despite its advisory status, its informal power outreaches far above the stipulations of the Treaty or relevant rules governing the Monetary Committee[14]. When the Treaty on European Union (Maastricht Treaty) was enforced in 1993, the Monetary Committee was given additional powers to prepare meetings of the Econfin Council, which in normal circumstances take decisions based on its opinion

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[12] (1) When the "snake" was introduced in 1972, "neither the Council resolution nor the central bank agreement contained any obligation for a closer coordination of monetary, fiscal and other economic policies or explicit commitments to strive for more convergence of economic developments beyond those included in the Council resolution of March 1971 or otherwise in existence (Ungerer, H. [1997] p.125)."
(2) The so-called Convergence Decision was adopted in 1974, but never worked. 74/120/EEC: Council Decision of 18 February 1974 on the attainment of a high degree of convergence of economic policies of the Member States of the European Economic Community (OJ L063, 05/03/1974, p. 0016)
(3) In 1990 a new Council Decision replaced the 1974 Convergence Decision. 90/141/EEC: Council Decision of 12 March 1990 on the attainment of progressive convergence of economic policies and performance during stage one of economic and monetary union (OJ L078, 24/03/1990, p. 0023-0024)

[13] The description of this subsection owes much to this URL.

[14] 31958Q1006 EEC Council: Rules governing the Monetary Committee (OJ B017, 06/10/1958 p. 0390-0392)

with few modifications. Only in cases of occasions with high political charge such as the decision in August 1993 to widen the fluctuation margin of ERM currencies from 2.25% to 15%, ministers were called together with central bank governors.

The tasks of the Monetary Committee used to be related mainly to monetary and financial issues such as the Exchange Rate Mechanism, especially issues of balance of payments and capital movements. When a Member Country had or was seriously threatened with severe balance of payments difficulties, it could ask the Commission for investigation, which, after consulting the Monetary Committee, could recommend mutual assistance, and the Ecofin Council could grant financial assistance to the country in difficulties. The discussion concerning the realignment of central rates of the EMS had to go through the Monetary Committee before the Ecofin Council ratified the decision politically.

In 1999 it was renamed the Economic and Financial Committee, and plays now a central role in multilateral surveillance, by helping to draft the broad economic policy guidelines of the EU, and by playing a key role in the excessive deficit procedure. Only in exceptional cases the Ecofin Council overrules the scenario prepared by the EFC, and it took place in November 2003, when the Ecofin Council decided not to start the sanction process under the Stability and Growth Pact against France and Germany despite the Commission's recommendation. The EFC also manages matters related to the ERM2 and EMU.

The Member States and the Commission appoint two members (and two alternates as sub-committee members) for the EFC. They are usually the heads of international divisions of the central bank and finance ministry. Jean-Claude Trichet, the President of the European Central Bank, used to chair the Committee. The Committee is supported by a secretariat consisting of a few economists and staff members belonging to the General Directorate ECFIN. This secretariat is a small, inconspicuous group of experts, but exercises actually an enormous influential power linking the finance ministries of major Member states and the Commission/Committee personally.

In parallel with the Economic and Financial Committee, EFC members from the EMU Member states meet as the Eurogroup and Eurogroup Working Party (consisting of alternates). They hold their meetings usually immediately prior to the EFC meetings, and are gaining its importance increasingly.

- **EC Financing Facilities and Conditionality**

From the 1970s through the 1990s there were three kinds of credit/financing facilities available to the Member States of the European Communities with different maturities and purposes. The Very Short-term Financing (VSTF) was extended unconditionally to central banks to provide community currencies for intervention purposes originally for 45 days after the month of intervention with automatic extension of maturities. The Short-term Monetary Support (STMS) was provided to central banks unconditionally (an ex post consultation entails) for three months extendable further in case of temporary balance of payments deficits. The VSTF and STMS were facilities based on agreements between EEC central banks.

On the other hand, the Medium-term Financial Assistance (MTFA) was granted to Member governments in balance of payments difficulties, on the recommendation of the Commission after consulting the Monetary Committee, by the decision of the Ecofin Council for a period of two to five years. In parallel with the MTFA, the Community Loan Mechanism was created as a medium- term credit facility in 1975 to cope with the oil crisis. The MTFA and CLM were merged to a Medium-term Financial Support (MTFS) in 1988 as a single facility for Member Countries with balance of payments problems. How individual cases the MTFA in the 1970s, CLM in the 1980s and MTFS in the 1990s were applied to Member states are described below with attached conditionality.

(i) MTFA to Italy in 1974

(a) The Council Decision of 1971 creating the MTFA[15] states:

- Member States shall make available, up to the ceilings set out in the annex, medium-term credits granted in the form of mutual assistance by directive or decision taken by a qualified majority by the Council on a recommendation of the Commission which shall for this purpose consult the Monetary Committee pursuant to Article 108. (Article 1)
- The Council shall….determine what undertakings in respect of economic policy the recipient Member State must inter into, taking account in particular of the quantitative guidelines in medium-term economic policy. (Article 3)

(b) Conditionality attached to MTFA to Italy[16]

Amount: 1,157.2 million Units of Account (Article 2)
Date of disbursement: 18 December 1974 (Article 3)
Repayment: 1978 in four quarterly payments
Interest rate: 7.5625% (Article 4)
Conditionality: elaborated in Articles 6 and 7 of the Council Directive regarding

- setting a limit to the increase of public lending in 1975
- setting a limit to the increase in central government expenditure in 1975
- setting a limit to the deficit on treasury transactions in 1975
- fiscal and economic undertakings over the next five years, and etc.

(ii) CLM to France in 1983

(a) The Council Regulation of 1981 adjusting the CLM[17] states:

- In accordance with the decision adopted by the Council….after consulting the Monetary Committee, the Commission shall be empowered to contract loans….directly from third countries….with the sole aim of lending the funds raised to one or more Member States in balance of payments difficulties….(Article 1)
- On the initiative of the Member State seeking a community loan, the Council, after examining the situation of that state and the adjustment programme which it undertakes

[15] 71/143/EEC: Council Decision of 22 March 1971 setting up machinery for medium-term financial assistance (OJ L073, 27/03/1971 p. 0015-0017)

[16] 74/637/EEC: Council Directive of 17 December 1974 granting medium-term financial assistance to the Italian Republic (OJ L341, 20/12/1974 p. 0051-0053)

[17] 31981R682 Council Regulation (EEC) No 682/81 of 16 March 1981 adjusting the Community loan mechanism designed to support the balance of payments of Member States (OJ L073, 19/03/1981 p. 0001-0002)

to implement, shall decide….

-whether to grant the loan

-the amount of the loan

-the techniques for disbursing the loan….

-the economic policy conditions attaching to the loan, with a view to re-establishing a sustainable balance of payments situation….(Article 2)

- Where a Member State receives a loan from the Community, the Commission in collaboration with the Monetary Committee shall take the necessary measures to verify at regular intervals that the economic policy of that state accords with the adjustment programme and any other conditions laid down by the Council…. To this end, the Member State shall place all the necessary information at the disposal of the Commission….(Article 3)
- The European Monetary Cooperation Fund shall make the necessary arrangements for the administration of the loans. (Article 10)

(b) Conditionality attached to CLM to France[18]

Amount: 4,000 million ECU (Article 1)

Date of disbursement: as soon as the borrowing operations are completed (Article 2)

Conditionality: The loan is granted on the basis of a decision taken by the Member State to put into effect, in accordance with the adjustment programme which it has presented, the measures of economic and monetary policy which are cited in the recitals to this Decision (Article 3).

The relevant recitals are as follows:

- The French authorities have decided to put into effect an economic policy programme whose nature is such as to reduce the rate of inflation, to re-establish a sustainable balance of payments position and to ensure a better convergence of economic policies within the Community while respecting the obligations which flow from the Treaty;
- This programme includes in particular the following measures;

1. Reduction of the public debts, notably by setting a limit of 3% of GDP to the budget deficits of 1983 and 1984, the re-establishment and preservation of equilibrium in the accounts of social security and unemployment insurance in 1983 and 1984 and a reduction in the deficits of the large national enterprises,
2. Reduction of the target for the rate of growth of the money supply for 1983 from 10 to 9% which will result in a marked reduction in the rate of domestic credit expansion,
3. Encouragement for the development of savings,
4. Perseverance with efforts to eliminate indexation both of costs and prices throughout the economy;

- The restrictions on the allocation of foreign currency for tourist purposes decided upon on 28 March 1983 will be abolished by 31 December 1983….;
- The implementation of this programme is accompanied by long-term measures which

[18] 83/298/EEC: Council Decision of 16 May 1983 concerning a Community loan in favour of the French Republic (OJ L153, 11/06/1983 p. 0044-0045)

seek to strengthen the competitiveness of firms and to create conditions which will favour a recovery of investment in the sectors subject to international competition.

(iii) MTFS to Italy in 1993

(a)The Council Regulation of 1988 establishing the MTFS[19] states:

- A Community facility providing medium-term financial support shall be established, enabling loans to be granted to one or more Member States which are experiencing, or are seriously threatened with, difficulties in their balance of current payments or capital movements. The outstanding amount of loans….shall be limited to 16,000 million ECU in principal. (Article 1)
- Where a Member State proposes to call upon sources of financing, outside the Community, which are subject to economic policy requirements, it shall first consult the Commission and the other Member States in order to examine, among other things, the possibilities available under the Community facility for medium-term financial support. Such consultations shall be held within the Monetary Committee. (Article 2)
- The medium-term financial support may be implemented by the Council on the initiative of the Commission….or of a Member State….The Council, after examining the situation in the Member State seeking medium-term financial assistance and the recovery or back-up programme presented in support of its application, shall decide….
  -whether to grant a loan or appropriate financing facility, its amount and its average duration,
  -the economic policy conditions attached….
  -the techniques for disbursing the loan or financing facility….(Article 3)
- In cases where restrictions on capital movements are introduced or re-introduced….its conditions and arrangements shall be re-examined. (Article 4)
- The Commission shall take the necessary measures to verify at regular intervals, in collaboration with the Monetary Committee, that the economic policy of the Member State in receipt of a Community loan accords with the adjustment or back-up programmes and with any other conditions….To this end, the Member State shall place all the necessary information at the disposal of the Commission. On the basis of the findings of such verification, the Commission, after the monetary Committee has delivered an opinion, shall decide on the release of further installments. The Council shall decide on any adjustment to be made to the initial economic policy conditions. (Article 5)

- Loans granted as medium-term financial support may be granted as consolidation of short-term monetary support made available by central banks of the Member States. Article 6)
- The European Monetary Cooperation Fund shall make the necessary arrangements for the administration of the loans. (Article 11)

(b) Conditionality attached to MTFS to Italy[20]

[19] 31988R1969 Council Regulation (EEC) No 1969/88 of 24 June 1988 establishing a single facility providing medium-term financial assistance for Member States' balances of payments (OJ L178, 08/07/1988 p. 0001-0004)

Amount: ECU 8,000 million (Article 1)
Date of disbursement: in 4 installments, the 1st not earlier than 1 February 1993, the 2nd not earlier than 31 July 1993 after examination of the programme execution, the 3rd not earlier than 1 February 1994 after reassessment of budgetary targets for 1994, and the 4th not earlier than 1 February 1995 after reassessment of budgetary targets for 1995 (Article 2)
Average duration: not exceeding six years
Conditionality: 1. The loan shall be granted on the basis of the decision taken by the Italian Republic to implement the budgetary adjustment and reform programme which it has presented, the objective of which are set out in the recitals of this Decision.
2. The Commission, in collaboration with the Monetary Committee, shall examine at regular intervals the evolution of the economic situation of Italy and the execution of the budgetary adjustment and reform programme, as implemented. These examinations will continue until the loan is fully repaid. (Article 3)
In the relevant recitals there is a long and detailed list of policy objectives concerning the budgetary policy, structural policy, monetary policy, wage setting mechanism and etc.

(2) Monetary policy coordination among central banks

While multilateral surveillance in the field of economic policies, especially fiscal policy, did not function effectively until mid 1990s when the 2nd stage of the EMU started, the surveillance and coordination in monetary policy was carried out by central banks, and played an essential role in the operation of the snake and EMS. In order to maintain a regional fixed exchange rate regime like the EMS, a certain degree of economic convergence was required and indeed achieved, but undue burden was placed on monetary policy because of the insufficient coordination in the economic field. In a sense the Committee of Central Bank Governors rather than the Ecofin Council may be called the protagonist of multilateral surveillance in Europe during the 1970s and 1980s.

- **The Committee of Central Bank Governors**

The Committee of the Governors of the Central Banks of the Member States of the European Economic Community (hereafter called the Committee) was created in 1964 as an institution of the EEC for the purpose of "promoting cooperation between the Central Banks of the Member States (Article 1)[21]. It is composed of governors of central banks, and at the meetings the European Commission was invited regularly, and also the chairman of the Monetary Committee if considered necessary. Its tasks are:

- to hold consultations concerning the general principles and broad lines of policy of the Central Banks, in particular as regards credit and the money and foreign exchange markets;
- to exchange information at regular intervals about the most important measures that fall within the competence of the Central Banks, and to examine those measures….

[20] 93/67/EEC: Council Decision of 18 January 1993 concerning a Community loan in favour of the Italian Republic (OJ L022, 30/01/1993 pa0121-0123)
[21] 64/300/EEC: Council Decision of 8 May 1964 on cooperation between the Central Banks of the Member States of the European Economic Community. (OJ 077, 21/05/1964 p.1206-1207)

In carrying out its task, the Committee shall keep under review the trend of the monetary situation both inside and outside the Community (Article 3).

When the snake was established in accordance with the Werner Plan in 1972, the Ecofin and the European Council expected the Committee to undertake following assignments respectively:

[Ecofin: Council Decision]

"Within this framework (of the guidelines on general economic policy laid down by the Council), the central banks shall be invited…."

(a) to coordinate their policies in monetary and credit matter, within the Committee of Governors of Central Banks;
(b) to establish general guidelines to be followed by each of them, in particular as regards the trend of bank liquidity, the term for supply of credit and the level of interest rates;
(c) to lay down practical methods for the application of this procedure (Article 2)[22]."

[Resolution of the European Council]

"As a first step towards the creation of its own monetary zone within the framework of the international system, the Council requests the Central Banks of the Member States….to reduce by stages the difference which exists at any given time between the highest and the lowest rates of exchange of the currencies of the Member States. To this end, the Central Banks are requested….to intervene on the respective foreign exchange markets in accordance with the principles set out below:

(a) from a date to be fixed by the Governors of the Central Banks, interventions are to be carried out in Community currencies, and on the basis of the margins recorded on that date on the foreign exchange markets;
(b) as the limits move closer to each other the margins referred to in subparagraph (a) are to be reduced and not further extended;
(c) by 1 July 1972 at the latest the difference which exists at any given time between the spot exchange rates of the two Member States is not to exceed 2.725%."[23]

After the Delors report on the creation of the Economic and Monetary Union in 3 stages recommended the enhancement of the function of Committee, the 1964 Council Decision was replaced by a new Decision in 1990, which stated "in view of the objectives of the progressive realization of the economic and monetary union, the tasks should be extended and the tasks and roles of the Committee of Governors of the Central Banks….should be reinforced." "The tasks of the Committee shall be:

(a) to hold consultations concerning the general principles and the broad lines of monetary policy, in particular as regards, credit, the money and foreign exchange markets as well as issues falling within the competence of the central banks and affecting the stability of financial institutions and markets;
(b) to exchange information regularly about the most important measures that fall within the competence of the central banks, and to examine those measures….;

[22] 71/142/EEC: Council Decision of 22 March 1971 on the strengthening of cooperation between the central banks of the Member States of the European Economic Community (OJ L073, 27/03/1971 p.0014-0014)

[23] 41972Y0418(01) Resolution of the Council and of the Representatives of the Governments of the Member States of 21 March 1972 on the application of the Resolution of 22 March 1971 on the attainment by stages of economic and monetary union in the Community (OJ C038, 18/04/1972 p.0003-0004)

(c) to promote the coordination of the monetary policies of the Member States with the aim of achieving price stability as a necessary condition for the proper functioning of the European Monetary System and the realization of its objective of monetary stability;
(d) to formulate opinions on the overall orientation of monetary and exchange rate policy as well as on the respective measures:
(e) to express opinions to individual governments and the Council of Ministers on policies which might affect the internal and external monetary situation in the Community and, in particular, the functioning of the European Monetary System.

In carrying out its tasks, the Committee shall keep under review the monetary situation and prospects both inside and outside the Community.

The Committee shall prepare an annual report on its activities and on the monetary and financial conditions in the Community, which shall be transmitted to the European Parliament, the Council of Ministers, and the European Council (Article 3).[24]"

With the start of the 2nd stage of the EMU in January 1994, the European Monetary Institute (EMI), the predecessor of the European Central Bank, was established. The EMI replaced the Committee of Central Bank Governors and took over the function of the EMCF.

- **The Cooperation among Central Banks during the Snake Period**

The practical arrangement of the joint float of community currencies against the US dollar (the "snake") was laid down by the so-called Basel Agreement of 10 April 1972 among EC central banks within the broad political framework fixed by the resolution of March 1971 of the European Council[25]. The Basel Agreement made rules on the interventions by central banks to keep community currencies within the intervention points, and for the financing of interventions established credit facilities without any limit to amount (VSTF: Very Short-term Financing). Prior to the Basel Agreement, central banks in the EEC had concluded an Agreement Setting Up a System of Short-term Monetary Support (STMS) on 9 February 1970 to provide each other with unconditional credits up to an agreed amount in case of temporary balance of payments deficits. Later during the EMS period, these two credit facilities of the VSTF and STMS were linked, and credit facilities could be extended to nearly 18 months.

"An important aspect of the arrangement was the so-called concertation, that is, the efforts to harmonize exchange operations of the participating central banks. This was done, first, by standardizing the dealing hours of various markets and the earliest and latest time of the day at which interventions might be undertaken so that no central bank would have to bear alone the burden of intervention, and, second, by operating a special telephone network among participating central banks for mutual information and consultation on market developments, strategies, and tactics (Ungerer, H. [1997] p.125)." The concertation kept playing an important role in managing the EMS. The network was extended later to non-participating central banks

[24] 90/142/EEC: Council Decision of 12 March 1990 amending Council Decision 64/300/EEC on cooperation between the central banks of the Member States of the European Economic Community (OJ L078, 24/03/1990 p.0025-0026)

[25] 41971Y0327(01) Resolution of the Council and of the Representatives of the Governments of the Member States of 22 March 1971 on the attainment by stages of economic and monetary union in the Community (OJ C028, 27/03/1971, p 0001-0004)

such as the Swiss National Bank, the Federal Reserve Bank of New York and the Bank of Japan.

- **The Cooperation of Central Banks in the EMS**

The European Council consisting of the Heads of State and Government of nine states of the European Communities agreed on the basic principles of the European Monetary System (EMS) in its resolution of 5 December 1978.[26] The EMS superseded the snake arrangement of 1972, and combined old and new rules for monetary relations in the EC.

Its legal basis was approved by the Ecofin, the Committee of Central Bank Governors and the Board of Governors of the European Monetary Cooperation Fund[27], but essentially "the rules governing the EMS are based on agreements between the central banks and are not an integral part of Community legislation (the Delors Report, paragraph 61)." This legal structure of the EMS is considered to be one of the reasons why the surveillance and coordination in the economic field remained insufficient, and an undue burden was placed on the coordination of monetary policies under the responsibility of central banks.

In the EMS practically the greatest importance was attached to the intervention rules, which were basically the same as those of the snake. Participating central banks were required to buy or sell partner currencies at the limit of fluctuation margin in unlimited amounts. In the management of such a system, the daily concertations between central banks were essential, in particular, to smooth out exchange rates and maintain orderly conditions on foreign exchange markets.

Reports of the Deutsche Bundesbank in those days pointed out, "more crucial to the success of the EMS than the institutional arrangements is, however, the achievement of a high degree of convergence in economic developments in Community countries. Considering that inflation rates in most partner countries are still too high, this can only mean that economic, fiscal and monetary policies everywhere must be oriented towards the common objective of greater domestic monetary stability." "A distinct tendency towards greater convergence in the economic policies of the member countries….has been apparent since the last realignment of central rates in March 1983 (when the French government reoriented its basic economic policy and was granted the Community loan to overcome balance of payments difficulties)….The decisiveness with which some governments changed course in their economic policy and the

[26] Resolution of the European Council of 5 December 1978 on the establishment of the European Monetary System (EMS) (Bull. EC 12-1978, p. 10)

[27] They comprise the following decisions and agreements:
Council Regulation (EEC) No 3180/78 of 18 December 1978 changing the value of the unit of account used by the European Monetary Cooperation Fund (OJ L379, 30/12/1978 p. 0001);
Council Regulation (EEC) No 3181/78 of 18 December 1978 relating to the European monetary system (OJ L379, 30/12/1978 p. 0002);
Agreement between the central banks of the member states of the European Economic Community laying down the operating procedures for the European Monetary System;
Decision of the Board of Governors of the European Monetary Cooperation Fund on the technical implementation of the agreement between the EEC central banks concerning the exchange rate system;
Instrument of the EEC central banks amending the system of short-term monetary support;
Resolution of the Council amending the Resolution of the Council establishing a medium-term financial assistance mechanism (source: Monthly Report of the Deutsche Bundesbank, March 1979, p. 11)

resoluteness with which they are pursuing their new policies would not have been likely without the political will not to jeopardize the existence of the EMS. Moreover the close cooperation among the central banks of Europe in the field of monetary policy….has also contributed to the smooth functioning of the system."[28]

In September 1987, rules of interventions and related financing within the EMS were changed to strengthen the EMS by making the operations more flexible. The decision was made first among the EEC central bank governors, and was agreed at the informal meeting of the Ecofin in Nyborg (the so-called Basel/Nyborg Agreement). The press communiqué of the reform emphasized that "greater exchange rate stability depends on all Member States achieving, through their economic and monetary policies, sufficient convergence towards internal stability. In the light of this basic understanding they (Governors) have agreed in particular to exploit the scope for a more active, flexible and concerted use of the instruments available, namely exchange rate movements within the fluctuation band, interest rates and interventions. To promote this more effective use of the instruments, the Committee of Governors will strengthen the procedure for joint monitoring of economic and monetary developments and policies with the aim of achieving common assessments of both the prevailing conjuncture and appropriate policy responses.[29]"

(3) Lessons for East Asia

- **Failure of the general economic policy surveillance and coordination**

In the 1970s and 80s there was a relatively well-defined framework for the surveillance and coordination of general economic policies (the term---general economic policies---is used here in contrast to specific policy efforts to maintain a regional monetary system). The so-called Convergence Decision of 1974 stipulated such rules as follows;

(a) The Ecofin Council adopts annual guidelines on economic policy which the Community and Member States are to follow.
(b) Three examination meetings are to be held annually, including laying down quantitative guidelines for public budgets.
(c) The Economic Policy Committee is set up to establish a five-year medium term economic program whose purpose "shall be, in the context of Economic and Monetary Union, to facilitate and guide structural changes - sectoral, regional and social - and to ensure the convergence of overall economic policies."
(d) Member States must initiate prior consultation before changing the parity or central rate of currencies.
(e) In case economic, monetary and budgetary policies of Member States deviate from the guidelines, the Commission may send a recommendation to the state concerned.

This Convergence Decision was further complemented by the Council Directive[30] on

[28] Monthly Report of March 1979, p. 17 and Report for the Year 1984, p. 67 of the Deutsche Bundesbank
[29] Press communiqué of the EEC Central Bank Governors and the EMCF of September 18, 1987 on arrangements to strengthen the EMS (Report of the Deutsche Bundesbank for the Year 1987, p. 66)
[30] In the legal order of the European Community, a **decision** is binding in its entirety and applicable to those to whom it is addressed, whereas a **directive** simply sets out objectives to be attained. ("The ABC of Community law" by Dr. Klaus-Dieter Borchardt, European Commission, 2000, p.69)

Stability, Growth and Full Employment in the Community[31], which sets such objectives as follows;

(a) "In order to achieve the objectives of price stability, external balance, growth and full employment in the Community, each Member State shall implement its short and medium-term economic policies in accordance with the guidelines adopted by the Council."
(b) Member States adopt provisions concerning public spending, direct or indirect taxes, public investment programs, finances of local authorities and etc.
(c) Member States take the measures "necessary to enable them to take prompt action on the various elements covered by the policy of the monetary authorities, particularly money supply, bank liquidity, credit and interest rates."

The Economic Policy Committee was established, through the merger of three committees (the Short-term Economic Policy Committee, the Budgetary Committee and the Medium-term Economic Committee), to promote coordination of short and medium-term economic policies among Member States[32]. The assignments of the Committee were in particular;

- to assist in coordinating general economic policies,
- to examine and compare Member States' budgetary policies,
- to prepare the draft of the medium-term economic policy program,
- to keep under review policies of Member States and examine their compatibility with the above program, and
- to analyze the development of the economies in order to discover the reasons for any divergence from the program.

This framework of general economic surveillance and coordination, whose establishment was decided in February 1974, contains many common elements that are being tried in the European Economic and Monetary Union now in the 21st Century, such as the adoption of the broad economic policy guidelines, arguments regarding to the Stability and Growth Pact and the emphasis on the medium-term importance of structural reforms.

In the 1970s and the first half of the 80s, having experienced two oil crises and under the new international monetary regime after the collapse of the Bretton Woods System, European economies lost the momentum for integration, and Member States were busy in protecting their own national interests, thus resulting in diversification of their economic fundamentals especially among states in the German economic influence and the rest of the EC. In such a turbulent international environment and with basic differences in the philosophy of economic policies, the surveillance and coordination framework was simply too ambitious, and the gap from the reality was too big to bridge. In other words, the devised scheme of general surveillance, not to mention coordination of economic policies, was premature and not applicable.

The necessity of general economic surveillance and coordination started to be felt again in the latter half of the 1980s, when the single market was envisioned on the real

[31] Council Directive 74/121/EEC of 18 February 1974 on stability, growth and full employment in the Community (OJ L 063, 05/03/1974, p.0019)

[32] 74/122/EEC: Council Decision of 18 February 1974 setting up an Economic Policy Committee (OJ L 063, 05/03/1974 p.0021-0022)

economy side, and when the European Monetary System remained relatively stable due to the follow of monetary policies of Member States to that of the Deutsche Bundesbank with the deutschemark as an anchor currency. In 1990 a new Convergence Decision became effective, abolishing the former defunct framework of 1974.

- **Importance of a clear objective and reliable, efficient institutions**

While the surveillance and coordination of general economic policies proved to be premature and unworkable, those targeted in specific fields of maintaining the European Monetary System and providing Member States with credits to overcome balance of payments difficulties were generally successful in achieving objectives. In the case of EMS, unlike the common float (the Snake), the management of the system was underpinned by a strong political will of Member State leaders, especially after the historical change of French economic policies from the inflation-prone growth oriented policies to stability oriented ones in 1983, and by reliable and efficient institutions responsible in financial and monetary areas, that is, the Committee of Central Bank Governors and the Monetary Committee. It is worth stressing that both institutions were basically shielded from diplomatic maneuvers, and financial and monetary experts, who shared strong ties of trust each other, could engage themselves in frank discussions in a confidential manner behind closed doors.

Although the Economic and Financial Affairs (Ecofin) Council, consisting of economic and financial ministers of Member States, was the official decision making body of the EC in the area of economic policy coordination, those who actually "pulled the policy strings" were the Monetary Committee and its small secretariat, supported by the staff of the European Commission-the Economic and Financial Directorate General. During the 20 year life of the EMS (1979-1998), the agenda and scenario of important decisions such as realignments of central rates and the extension of credit to Member States in balance of payments difficulties (amount, terms and conditionality) were prepared first by the secretariat, presented to and discussed at the Monetary Committee, and finally politically endorsed by the Ecofin Council. Thus, the Monetary Committee (and its secretariat), which was created as an advisory body for the Econfin Council, became a de facto core institution in responsible fields, thanks to its outstanding expertise, small and collegial circle of the same minded, and its direct personal channels to monetary authorities at home.

Fundamental rules governing the Monetary Committee[33] were as follows;

(a) The Committee reviews the monetary and financial situation (with emphasis on the balance of payments) of Member States and the Community, and report to the Ecofin Council and the Commission.

(b) The Ecofin Council and the Commission must obtain the opinion of the Committee in cases like international payments and capital account controls. The Committee has the power and obligation to draw up opinions on its own initiative when it considers necessary.

(c) Member States appoint two members and two alternates (a senior official in the administration and one recommended by the central bank respectively) for the term of two years, and they perform their duties completely independently.

[33] 31958Q1006 EEC Council: Rules governing the Monetary Committee (OJ B 017, 06/10/1958 p. 0390-0392)

(d) The Committee meets at least six times annually.
(e) The opinion of the Committee is adopted by the majority voting. The minority may set out its view in an attached document.
(f) The Committee may establish working parties on specific questions.
(g) In important cases the Committee has a right to request necessary information from a specific country.
(h) Discussions of the Committee and working parties are confidential.
(i) The Committee is assisted by a secretariat, whose staff is supplied by the Commission. The expenses of the Committee are included in the budget of the Commission.

In the process of enhancing financial and monetary cooperation in East Asia, it will be indispensable to create reliable and efficient institutions, not only among central bank governors/deputies, but also of the Monetary Committee type that can discuss frankly and intensively such important issues as the Economic Review and Policy Dialogue in the region. The European experience in the past and today teaches us the importance of an inconspicuous body of trusted experts who pave the way to political decision makings for the common interests of ASEAN+3.

2. Inter-American Development Bank (IDB)

IDB is founded in 1959 and owned by its 46 member countries: 26 borrowing member countries in Latin America and the Caribbean, and 20 non-borrowing countries, including the United States, Japan, Canada, 16 European countries, and Israel. In November, 2004, IDB Board of Governors approved an application by the Republic of Korea to become a member[34]. To become effective, membership must also be approved by the Korea's parliament. When the approval process is completed, the Republic of Korea would become the Bank's 47th member and second Asian nation member. Japan joined the IDB in 1976.

As for economic surveillance, IDB does not perform the function, leaving it to the International Monetary Fund (IMF). For example, in case of emergency loans under IDB financing system, IDB requires it to fit within a macroeconomic stabilization program that has been endorsed and is subject to periodic surveillance by the IMF.

IDB plays, however, a key role in promoting dialogue on economic policies with each of its borrowing member countries and with regional grouping countries[35]. For promoting regional policy dialogue, IDB Research Department coordinates the Latin American Network of Central Banks and Finance Ministries, a forum for hi-level discussions of macroeconomic policy and financial management whose permanent members include the Central Banks and Finance Ministries of Latin America. The IDB Research Department is the technical secretariat for the Network. The creation of the Network in 1995 is consistent with the IDB's goal of becoming a source of ideas as much as financing.

The purpose of the forum is to promote a high-level policy discussion on macroeconomic and financial issues and foster personal ties among the Central Banks and Finance Ministries of Latin America and the Caribbean. This interaction with the region's

[34] IDB press release dated Nov. 19,2004

[35] IDB HP (http://www.iadb.org/int/DRP/defaulteng.asp)

policymakers allows the IDB to remain abreast of the main policy concerns in Latin America, thereby helping to set its research agenda and focus its policy advice.

The main activity of the Network is a biannual seminar. Topics covered in previous meetings include: monetary and exchange rate policies to deal with volatile capital flows; institutional arrangements to promote financial stability; budgetary institutions; the cyclical management of fiscal and monetary policy; inflation targets; public debt strategy; domestic initiatives to tackle international financial turmoil; proposals for redesigning the international financial architecture; floating exchange rates; domestic credit crunches; difficulties with capital flows; dollarization; contingent credit lines; and international financial standards.

Chapter 3: Assessment and Recommendations for Effective Surveillance

Chapter 3: Assessment and Recommendations for Effective Surveillance

1. Requirements for Effective Surveillance

Currently the policy dialogue and surveillance process among ASEAN+3 members is in transition from the "information sharing" stage to the "peer review and peer pressure" stage. The "due diligence" process has not quite started yet. The problem with this is that a speculative currency attack or crisis contagion can take place at any time in the region. Once an ASEAN+3 member faces a BOP difficulty or currency speculation, it may come to other members for financial assistance under the CMI. In order to respond to such an emergency event promptly, the group needs to have a clearly defined procedure for invoking bilateral swap arrangements under the CMI and a capacity to draft necessary conditionality for currency swaps within a short period of time. This requirement will be greater if ASEAN+3 moves to create an enhanced CMI that is more independent of IMF. Essentially, the ASEAN+3 group must build its capacity and willingness to conduct objective "due diligence."

- ***Clearly defined objectives.***

"Economic Surveillance and Policy Dialogue" under ASEAN+3 ERPD must have clearly defined objectives of the exercise. The objective of any surveillance is to review each member country's recent developments in macroeconomic, financial and external areas, to identify potential risks that may destabilize the economy, to provide policy advice to make the economy more resilient, and to induce the country government to undertake needed policies.

Given that a simple "information sharing" stage has passed, the ASEAN+3 group must have the notion of strengthening the "peer review and peer pressure" process and of preparing for the "due diligence" process. For effective peer review and peer pressure, the group should strengthen: (a) collection of timely and reliable data—some at high frequency and others at lower frequency; (b) production of high-quality, objective and neutral analyses and assessments of member economy conditions; (c) frank and candid exchanges of views about other member economies; and (d) a mechanism to induce member countries to make appropriate policy changes and to compliance with committed policy changes. Essentially, an immediate objective of ASEAN+3 ERPD must be to make "peer review and peer pressure" workable and effective.

The next stage is to explore the possibility of introducing the "due diligence" aspect to the policy dialogue and surveillance process. For this purpose, the group must review each member country's recent developments in macroeconomic, financial sector, and external areas with the lens of potential lenders—in order to identify potential risks and vulnerabilities that may destabilize the economy or key sectors of the economy, and to provide policy advice to make the economy more resilient. In order to initiate this process, the group may consider several options. First, an independent secretariat would be highly desirable to produce such country reports and to provide materials for due diligence. To draft policy conditionalities in the event of a member requesting CMI facilities, substantial inputs from an independent, professional secretariat is indispensable and is desirable for political reasons. Second, the region's central banks must be fully involved in this process. Given the important operational role of central banks in extending liquidity support at times of a crisis and their analytical expertise in conducting quality surveillance, their Governors should be fully involved by the time of the "due diligence" stage. Finally, mutual trust building is key for this process to be successful. Countries that hold mutual trust with each other and a shared sense of community would be better prepared to engage in "due diligence," assisted by a secretariat's inputs. Frequent contacts, meetings and exchanges of views and ready access to each other through the phone and e-mail would help greatly for this purpose.

- ***Surveillance and CMI.***

The ASEAN+3 countries have been reviewing the CMI since May 2004, including the amount, modality and IMF linkages. The total amount covered by the CMI is limited in view of the potential size of speculative capital flows and, hence, should be increased substantially perhaps by as much as ten times the current size. Over the medium term, its bilateral nature may be modified to become centralized in order to make its joint activation effective and prompt in the event of a crisis.[36] Again over the medium term, the degree of the CMI's linkage to IMF programs may be reduced or even eliminated as the quality of economic surveillance is improved. In this sense, CMI and surveillance are inter-linked.

As the region develops a financing arrangement that has a larger size, is centrally administered and becomes more independent of the IMF, the nature of surveillance must also evolve. This means that the analytical capacity of the ASEAN+3 members to conduct effective surveillance must improve as the evolution of the financing arrangement takes place. Essentially, the region must acquire its ability to assess economic and financial conditions of a country in crisis—or near-crisis—and to draft conditionality associated with its liquidity support to a crisis country, independently of the IMF. At the same time, as the capacity to conduct effective surveillance improves, the nature of CMI can also evolve. There is thus a mutually reinforcing relationship between surveillance and the CMI. This is essential to avoid moral hazard problems.

- ***Data requirements.***

Disclosure of adequate and timely information is essential to any successful surveillance and policy dialogue. A country may be reluctant to disclose, even among the ASEAN+3 members, sensitive information on macroeconomic, financial and external issues. This reluctance must be discouraged. In an early warning system, the provision of timely information is critical in providing lead times for policy corrections to be effective. Information accuracy is critical in formulating appropriate policy responses. Without adequate, accurate and timely information, the quality of surveillance can be severely damaged.

[36] Rajan and Siregan (2004) go one step further and propose to establish a centralized reserve pooling system.

The IMF has introduced the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS), and established the Dissemination Standards Bulletin Board (DSBB).[37] By participating in these initiatives, countries' ability to collect and disseminate statistics has substantially improved. However, low-income ASEAN countries are not SDDS subscribers and only Cambodia has participated in GDDS. It is important for these countries to upgrade capacity to collect important economic statistics. Even among more advance ASEAN economies, standardizing key economic indicators across the region is a big challenge.

In order to entice all governments to provide adequate, accurate, timely, and regionally comparable data, some carrots may be provided. One possible way to achieve this would be to introduce a contingent credit line (CCL) within the surveillance system. If a country is judged as "good and sound," as a result of surveillance, in terms of economic performance, macroeconomic management, and financial sector supervision, then the country can acquire CCL status. Once CCL status is given, the country is automatically eligible to have access to CMI liquidity at a time of a BOP or a currency crisis. Hence, potential recipients of CMI liquidity support can find it beneficial to participate in surveillance as long as they are judged to be "good and sound" for having access to such support at times of a crisis or contagion

2. Assessments of the Existing Framework.

(1) Why is IMF not sufficient

As mentioned earlier, the IMF is the most reputable organization of economic surveillance as well as a lending agency. However, there are at least three reasons why the IMF is not enough for Asia. First, the legacy of the Asian currency crisis still makes the Asian countries nervous about inviting the IMF for advices on macroeconomic and financial policies. The public reaction would not be favorable to the government that seeks advices from the IMF. This is a political problem. Second, it was revealed and it may still be the case that the expertise of the IMF on Asian issues is not perfect. There could be a role for a regional organization to provide "second opinion" to the government of the Asian countries. Third, the Asian countries are underrepresented in the IMF. IMF is an organization where voting shares are closely related to their quota shares that are the share of financial contributions that are allocated to the countries. In turn, the quota shares are calculated by the formula with nominal GDP, trade, and other economic variables. However, the real adjustment of formula takes place infrequently (every five years at most frequent timing), and with a substantial lag to the real world. The quota is typically adjusted only about 25 percent from wherever the status quo toward the calculated quota. As a result, fast-growing countries are under-represented and old stationary countries are over-represented. Asian countries,

[37] The SDDS was established in March 1996 to guide countries that have, or that might seek, access to international capital markets in the dissemination of economic and financial data to the public. The GDDS was established in December 1997 to guide countries in the provision to the public of comprehensive, timely, accessible, and reliable economic, financial, and socio-demographic data.

including Japan, are the typical examples of the first category. As legal voices are smaller, views and opinions from Asian countries are hard to be incorporated in the IMF policy.

(2) Regional structure

There are several processes for regional information sharing, policy dialogue, and economic surveillance in East Asia (see Table 1). The most important process of all is the ASEAN+3 ERPD Process. Other major processes include the ASEAN Surveillance Process, the Manila Framework Group (MFG) which was terminated recently, EMEAP (Executives Meeting of East Asia-Pacific Central Banks), and trans-regional forums such as Asia-Pacific Economic Cooperation (APEC) and Asia-Europe Meeting (ASEM). This section assesses some of the region's salient processes by identifying their strengths and weaknesses.

Table 2-1 Regional Forums for Finance Ministries and Central Banks(a)

	Finance Ministries and/or Central Banks					Central Banks		
	ASEAN (10)	ASEAN +3 (13)	MFG[b] (14)	APEC (21)	ASEM[c] (25)	SEANZA (20)	SEACEN (11)	EMEAP (11)
Year Established	**1967.8**	**1999.4**	**1997.11**	**1994.3**	**1997. 9**	**1956**	**1966.2**	**1991.2**
Japan		○	○	○	○	○		○
China		○	○	○	○	○		○
Korea		○	○	○	○	○	○	○
Hong Kong			○	○		○		○
Taiwan				○			○	
Singapore	○	○	○	○	○	○	○	○
Brunei	○	○	○	○	○			
Cambodia	○	○						
Indonesia	○	○	○	○	○	○	○	○
Laos	○	○						
Malaysia	○	○	○	○	○	○	○	○
Myanmar	○	○					○	
Philippines	○	○	○	○	○	○	○	○
Thailand	○	○	○	○	○	○	○	○
Vietnam	○	○		○	○			
Mongolia						○	○	
Macao						○		
Papua New Guinea				○		○		
Australia, New Zealand			○	○		○		○
Nepal, Sri Lanka						○	○	
Bang., India, Iran, Pak.						○		
USA, Canada			○	○				
Chile, Mexico, Peru				○				
Russia				○				
EU-15					○			

Notes: (a) APEC = Asia-Pacific Economic Cooperation; ASEAN = Association of Southeast Asian Nations; EMEAP = Executives Meeting of East Asia-Pacific Central Banks; MFG = Manila Framework Group; SEACEN = South East

Asian Central Banks; SEANZA = South East Asia, New Zealand, Australia.
(b) MFG includes the International Monetary Fund, the World Bank, the Asian Development Bank and the Bank for International Settlements.
(c) ASEM includes the European Commission.
Source: Kuroda and Kawai (2002).

- ***ASEAN Surveillance Process.***

The objective of the ASEAN Surveillance Process—established in October 1998—is to strengthen policy dialogue and policymaking capacity in monetary, fiscal and financial areas through information sharing, peer reviews and recommendations for action at the regional and national levels. This process is the first concrete attempt by a group of developing countries within a same region to establish mechanisms for individual and collective responses to events that could adversely affect the member economies. It has two components. The first is a monitoring and early warning mechanism that allows timely detection of any irregular movement in key economic and financial variables; the second is a peer pressure mechanism that induces appropriate policy responses to issues emerging from the monitoring exercise.

The ASEAN Surveillance Coordinating Unit (ASCU), established at the ASEAN Secretariat in Jakarta, prepares an ASEAN Surveillance Report. Using the same data supplied to the IMF in conjunction with its Article IV consultations and program negotiations, the ASCU performs an analysis of the latest economic and financial conditions in ASEAN while taking into account global developments that affect the regional economies.[38] The Asian Development Bank (ADB) supports this process by preparing an ASEAN Economic Outlook and special issue studies, as well as providing technical assistance.[39] The ASEAN Surveillance Report is considered and finalised by the ASEAN finance and central bank deputies before it is submitted for discussion by the ASEAN finance ministers during their peer review session.

While being the first attempt among developing economies, this process has several weaknesses. First, it lacks neutrality and objectivity in economic analyses and assessments. Since individual countries provide data to the ASEAN Secretariat which compiles such inputs and distributes the combined report for discussion, there is no guarantee that neutral and objective analyses are ensured. Second, the "ASEAN way" that respects "consensus and non-interference in others' domestic affairs" has often hindered frank discussions and assessments among the member countries. Participating countries may refrain from expressing criticisms directed toward a particularly country's unsustainable—and possibly misguided—policies (Manzano 2001). Third, officials of member countries acknowledge that the ASEAN Secretariat has insufficient capacity to carry out high-quality surveillance due to limited human and financial resources available.

- ***Manila Framework Group (MFG).***

[38] The exercise has recently been strengthened by the establishment of national surveillance units in several ASEAN countries (Cambodia, Indonesia, Laos, the Philippines, Thailand, and Vietnam), which produce drafts of country chapters.
[39] The ADB is also invited for discussions with the finance ministers and/or finance and central bank deputies.

The Manila Framework Group which was established in November 1997 was terminated in December 2004 after seven years of activity. The MFG regional surveillance mechanism provided a basis for a high-level process of surveillance and policy dialogue among participating finance and central bank deputies, without involving finance ministers or central bank governors, with support from the IMF, World Bank, ADB and Bank for International Settlements (BIS). By December 2004, the group had met 12 times. It is useful to examine why the MFG process was terminated despite the IMF's characterisation of the MFG as the "preeminent forum for Asian regional surveillance and peer pressure."[40]

The MFG process failed essentially for four reasons. First, many participants felt that the discussion was one-sided, in the sense that they were subject to scrutiny by the United States and the IMF, but not the other way around (Wang and Woo 2004). As a result, the process failed to nurture a sense of mutual trust among the participants. Second, the MFG did not clearly specify the objectives of "Economic Surveillance and Policy Dialogue". As a result the process was simply a general discussion of the global, regional and national outlook without attempting to exercise peer pressure and to formulate any country-specific or region-wide recommendations. Third, although the IMF played the role of a loose secretariat function, no professional secretariat existed to systematically examine critical issues, to identify vulnerabilities and risks and to propose necessary policy changes. Finally, due to a proliferation of similar meetings and gatherings that sprang out within the region, MFG members' incentives to keep the process going has waned and the momentum has been lost.

- ***Central bank forums—EMEAP.***

Asian central banks have several policy dialogue processes of their own, of which EMEAP is the most prominent. EMEAP was organised in February 1991 with the leadership of the Bank of Japan and the Reserve Bank of Australia. Its major objectives include enhanced regional surveillance, exchanges of information and views, and the promotion of financial market development. Since 1996, its activities have included annual meetings of EMEAP central bank governors, semi-annual meetings of the deputy governors, and three working groups concerned with payments and settlement systems, financial markets, and bank supervision.[41] EMEAP has no secretariat and the responsibility for organisational matters, along with the meetings themselves, is rotated among the participating central banks.

The EMEAP process has several strengths. First, the participants share a sense of central bank community, just like many other central bankers do. Second, it has the capacity and willingness to carry out useful initiatives for the region, such as the Asian Bond Fund initiative for Asian bond market development. Third, regional central banks have expertise in monetary, financial and exchange rate policy management and in delivering quality surveillance. An

[40] The IMF's Regional Office for Asia and the Pacific provides a technical secretariat function for the MFG.

[41] While this forum is considered the most influential for regional central banks, it has its own weaknesses such as irregularity of meeting schedules and lack of continuity. According to Eichengreen (2001), each meeting has a different theme, and themes have ranged over everything from social safety nets to capital flows.

important weakness of EMEAP is that it does not cover full ASEAN+3 members. Another problem is that it is often secretive and provides only limited transparency about its activity.

- ***ASEAN+3 Economic Review and Policy Dialogue Process.***

The Asian financial crisis in 1997 highlighted the need to strengthen regional cooperation and urged the heads of state or government of the ASEAN+3 group, consisting of ASEAN-10 and China, Japan and South Korea, to meet for the first time in December 1997 to discuss regional peace, stability and prosperity. To promote regional financial cooperation in particular, the first ASEAN+3 Finance Ministers Meeting was held in April 1999 on the sidelines of the ADB annual meeting in Manila. With the ASEAN+3 leaders' recognition of the need for "enhancing self-help and support mechanisms in East Asia through the ASEAN+3 Framework," the ASEAN+3 Economic Review and Policy Dialogue (ERPD) was introduced in May 2000 when its first meeting was held. Under this process, the ASEAN+3 finance ministers have met annually, in principle to exchange information and discuss policy issues, and ASEAN+3 finance and central bank deputies have prepared for the meetings.

The purpose of the ASEAN+3 ERPD process is to strengthen policy dialogue, coordination and collaboration on the financial, monetary and fiscal issues of common interest. Its major focus is on issues related to macroeconomic risk management, monitoring of regional capital flows, strengthening of the banking and financial systems, reform of the international financial architecture, and enhancement of self-help and support mechanisms in East Asia. Steps have been taken for cooperation in monitoring short-tem capital flows and developing a regional early warning system to assess regional financial vulnerabilities, with a view to preventing financial crises in the future.

Like the ASEAN Surveillance Process, the ASEAN+3 ERPD Process has not yet been as effective as it should be. There is no independent, professional organization that prepares comprehensive papers for analyses, assessments and issues to support the process, except that the ADB provides some data on developing member economies. Central bank governors are not involved in the process, though their deputies take part in the deputies' process. Institutions with best knowledge and expertise on particular issues—like the IMF on global economic issues, the BIS on global banking issues, and other relevant institutions on particular topics, like the high price of oil—are not invited to the process. In addition, the private sector finds no way in providing its input to the process.

One of the issues on surveillance and policy dialogue is how to make its process effective, where the participating countries can freely argue their own and peers' economic problems and vulnerabilities and discuss policy measures to address such problems and reduce vulnerabilities.

3. Recommendations

There are already several forums for "Economic Surveillance and Policy Dialogue" in East Asia.[42] Though substantial progress has been made, none is fully effective at this point. A challenge is how to create a good surveillance culture within ASEAN+3, like the processes for G-7, the European Union (Monetary Committee, ECOFIN), and OECD (EPC, EDRC, WP3). To be effective, the policy dialogue and surveillance process needs to put more emphasis on technical analysis and create an environment for serious policy debates by taking an appropriate balance between the traditional culture of "presumption of non-interference in domestic affairs" on the one hand and the new challenge of "conducting due diligence of country policies" on the other. The process must encourage frank and candid discussions on the technical substance without being abrasive and confrontational. An essential ingredient to nurture this process is "mutual trust."

- ***Linkage between the CMI and surveillance.***

A need for intensive "Economic Surveillance and Policy Dialogue" must be contingent on the progress to be made on the CMI. As mentioned earlier, the progress in terms of the effectiveness of "Economic Surveillance and Policy Dialogue" can have an impact on the future of the CMI. Essentially they are linked with each other (see Table 2). If the current CMI—with a strong IMF linkage—is expected to remain as is, the policy dialogue and surveillance process may not have to be strengthened much. The "peer review and peer pressure" stage may be enough. However, if the current CMI is to be transformed into an enhanced CMI—with a larger amount and a weaker IMF linkage—or a centrally administered reserve pooling arrangement that is independent of IMF, the policy dialogue and surveillance process must increasingly contain the element of conditions for pre-approval of emergency loans. The reason is that with such a financing arrangement, the ASEAN+3 group must address the earlier concern that an AMF that could lend too generously with too little conditionality might create moral hazard for the government at the receiving end as well as for investors with stakes in the affected economies. To minimize moral hazard, it is essential to strengthen the surveillance process, improve the capacity to formulate appropriate adjustment policy in the event of liquidity crisis and, to the extent necessary, enforce effective private sector involvement.

Table 4-1 Linkage between CMI and Surveillance

Financing Arrangement	Policy Dialogue & Surveillance	Needed Capacity	Recommendations
Current CMI (with a strong IMF linkage)	• Info sharing • Peer review and peer pressure	• Objective analyses and assessments of member economies	• Involve central bank governors, IFIs and private sectors • Prepare steps to create a secretariat

[42] The Manila Framework Group was terminated recently. Nonetheless, some duplication is unavoidable.

- ***Involving central bank governors.***

The ASEAN+3 process is currently designed for finance ministers, while central banks participate only in preparatory meetings—at the deputy level—for ASEAN+3 finance ministers. However, given the important operational role of central banks in extending liquidity support at times of crisis and their potential role in conducting quality surveillance, their governors should be fully involved with the ASEAN+3 process. The experience from European economic integration suggests that analytical expertise and operational knowledge of central banks are essential to financial cooperation. Involving central bank governors is useful not only to ensure coordination between finance ministers and central bank governors but also to strengthen central bank ownership of the process.

- ***Invitation of the IFIs and the private sector.***

It is useful to invite international financial institutions, such as the IMF, the World Bank, the ADB and BIS, to the ASEAN+3 process as deemed appropriate. Close dialogue with the IMF is particularly important at least initially because of the need to link the CMI disbursement to the IMF at times of crises and contagion as long as the disbursement exceeds ten percent of the committed amounts. Even at a later stage, the input of the IMF into the global surveillance part is quite useful. In fact, many other institutions and organizations with internationally best expertise should be invited to part of the process for discussions with the Finance Ministers and Central Bank Governors. In addition, ASEAN+3 Secretariat staff may conduct a parallel mission to the IMF's annual Article IV consultation mission to the regional members in order to avoid duplications.

At the same time, as ASEAN+3 objectives cannot be achieved without private sector participation, inviting a group of private sector practitioners would be highly recommended. Indeed, participation of the private sector is essential to the success of ASEAN+3 financial cooperation, because it is private sector activity that promotes financial market development and strengthens regional economic and financial interdependence. For this purpose, the private sector of ASEAN+3 is encouraged to establish a Private Sector Advisory Committee (PSAC), modeling after the Business and Industry Advisory Committee (BIAC) for the OECD. Being located closely with each other, the ASEAN+3 Secretariat and the PSAC can intensify mutual dialogue for greater regional integration.

- ***Establishing a secretariat for surveillance and financing.***

The member countries must set up a technically competent Secretariat that supports the ASEAN+3 process. In order to conduct effective surveillance and provide short-term liquidity in the event of a regional crisis or contagion, the Secretariat would assist the ASEAN+3 Finance Ministers and Central Bank Governors by providing high-quality and in-depth economic reviews and assessments, timely identification of emerging issues and vulnerabilities affecting the regional economies, and effective policy advice. In normal times, the Secretariat must monitor regional and country economic conditions, regional capital flows, and financial and exchange market developments through various tools including early warning indicators. At the time of a crisis or contagion, the Secretariat, sometimes working closely with the IMF depending on the scale and magnitude of the problem, must make financial gap assessments, produce a policy adjustment package as lending conditionality, and monitor the affected economy's policy implementation and progress during its intervention.

As the modality of CMI becomes more independent of the IMF and it develops an arrangement going far beyond the CMI, the Secretariat will eventually have to transform itself into a more structured organization to produce country surveillance papers, help support financing, and draft conditionality associated with financing. If the regional economies can delegate full authority to the Secretariat to conduct these tasks effectively, it is reasonable to completely delink the financing arrangement from the IMF. But until this is done, the Secretariat is expected to work together with the IMF because the regional financing arrangement remains to be linked to IMF programs to a certain—though reduced—degree.

Such a Secretariat should be established in a qualified host country, which is politically and socially stable, well-equipped with social infrastructure and, hence, highly attractive to a large number of international experts and professionals in the global community. At least initially this Secretariat does not have to be a bureaucratic institution, but will need to become a more structured one as its tasks become more demanding over time.

- ***Regional CCL.***

It is important to create sufficient incentives for countries in the region to participate in the economic surveillance process. Each economy in the region must be convinced that going through the surveillance process focusing on its own economy would be beneficial because it sends positive signs to the international community and investors and helps establish its own credibility and reputation.

One mechanism to make quick disbursement possible without causing large moral hazard is the contingent credit line (CCL) arrangement that was in place at IMF from 1999 to 2003. It was a good idea, but never used. It is recommended here that a CCL should be introduced in the Asian context with some modification.

The idea of a CCL is simple. The country has to clear a set of macroeconomic and prudential conditions during non-crisis time—that is, no need to expect for IMF financial assistance. Once the country obtains a pre-approval for a credit line, then the country can obtain very quick disbursement of credit when the country becomes under pressure. Since the country becomes under pressure when policies are fine, the crisis should be of liquidity type. Nothing is wrong with fundamentals, but investors pull out funds for some reasons other than this countries' policy—maybe contagion from neighboring countries.

The CCL provides a good incentive for the country in a non-crisis time, to keep good policies—good for crisis prevention. The CCL also acts as a quick liquidity injection—good for crisis management.

If a regional contingent credit line (CCL) arrangement can be put in place, the same effect can be expected. As a result of surveillance, the Secretariat may endorse a member as "good and sound" in terms of economic performance, macroeconomic, financial and exchange rate policy management, and financial sector supervision. Such a country can acquire CCL status so that it is automatically eligible to receive CMI liquidity at a time of crisis driven by herd behaviour of investors or contagion. In this way, potential recipients of such liquidity support can benefit from participation in surveillance as long as they are judged to be "good and sound" and, hence, declared to be "eligible" for having access to liquidity support.[43]

Since CCL did not have a taker at the IMF, it may be questioned whether any country would be interested in Asia. It is believed that the CCL did not function at IMF because a crisis country believed, and turned out to be true, that they could obtain a regular facility at the time of crisis, because the IMF cannot just let the country slip into a crisis and disintegrate. Moreover, applying for CCL may send a wrong message, in that the investors would suspect that the application would be a signal for the near-crisis, although that was explicitly ruled out in the pre-condition. Another question, that was not tested in the experience (or lack of it) was what if the CCL-certified country experiences deterioration of macroeconomic conditions. De-listing from CCL certification certainly would cause capital outflows since it would damage credibility. Could the IMF possibly trigger a crisis by its own action? Both the country and IMF wants to avoid such a situation. Lastly, the commitment fees that IMF imposes were considered to be too high. Since some investment banks do provide credit lines to countries, if IMF had done the CCL without commitment fees, that would be regarded as an unfair intrusion by the official sector to private sector businesses.

[43] However, one needs to note that the IMF CCL arrangement has been abandoned because of the disincentives on the part of IMF members to obtain CCL status—fear of being judged as facing an imminent crisis, fear of losing CCL status when the IMF deems the country's economic management as unsound, etc..

Now, how could we avoid a problem of no-takers if we introduced regional CCL? First, in addition to quick disbursements, benefits can be enhanced so that a country finds it attractive. For example, the interest rate can be lower than the one with the usual facility at IMF, not to mention a quick disbursement. Second, commitment fees can be lowered so that a country can find it more attractive. Third, the de-listing problem is difficult to deal with, but several steps of qualification can be devised and early warning in terms of san initial step toward de-listing should be issued way advanced in time. However, it is not recommended that the regional CCL becomes regional credit rating.

4. Concluding Remarks

The independent secretariat is necessary for implementing recommendations described above. The Secretariat has to be regarded as "fair" because listing and de-listing may have If CCL is to be introduced, the secretariat has to make tough decision even when the country is in need of financial assistant. The secretariat has to provide policy recommendations that should be taken seriously. That requires the secretariat to have sufficient financial resources and excellent staff. The staff has to work close to the market so that not only macroeconomic but financial information can be taken into account when the recommendation is drawn up. For that reason, the location of secretariat should be near a major financial center, if not in the city with substantial cross-boarder financial activities. The secretariat location should also be near a major international airport. It should be in a country with low communication costs and with proven safety and security. The host country should also have highly trained population from which the support staff can be drawn. The host country may pitch in additional financial resources—for example, rents of offices—to maintain the secretariat.

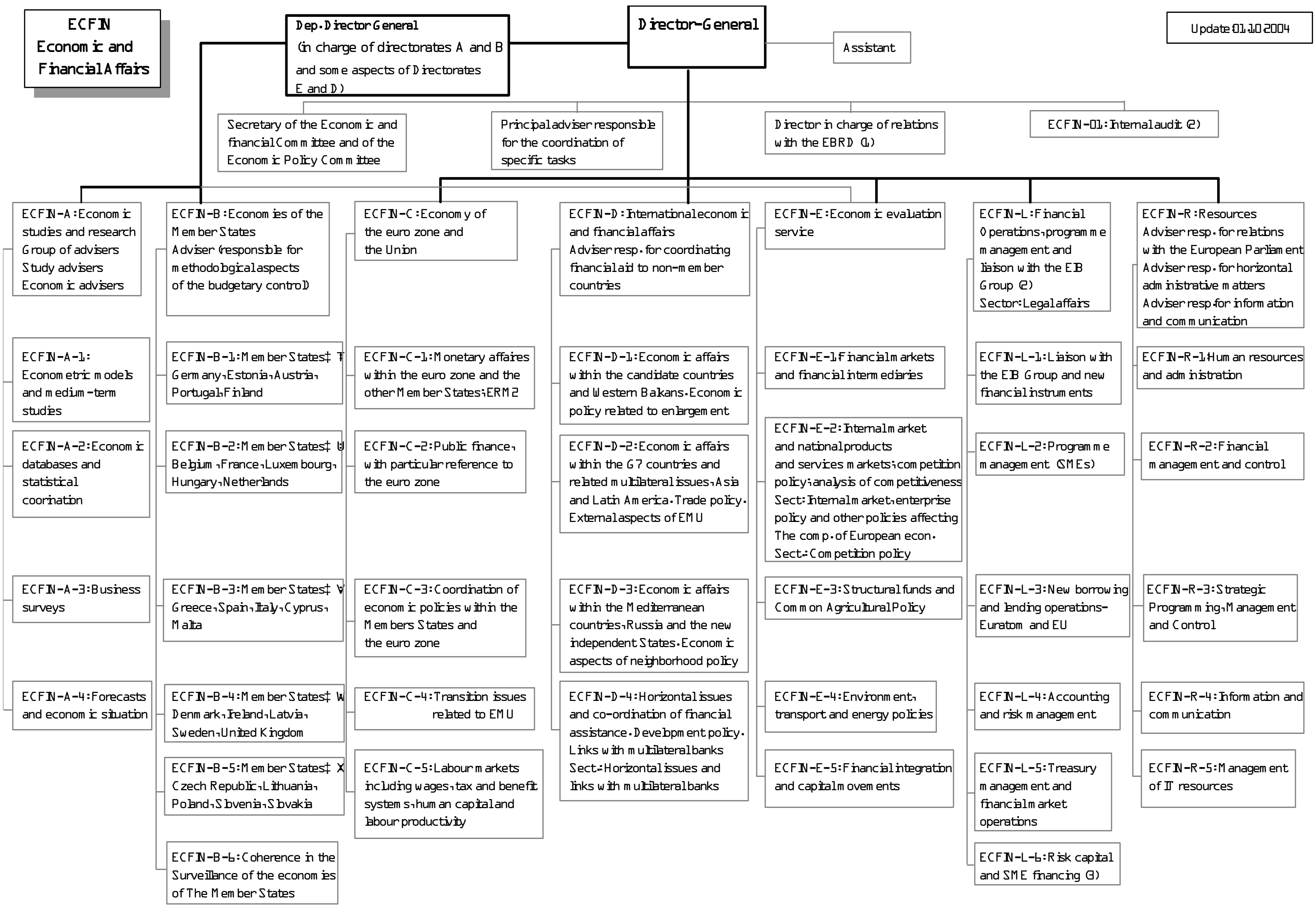
One option for the secretariat is to ask the ADB-REMU in Manila or ADBI in Tokyo to function as if it is secretariat. Since ADB is already an international organization, the initial cost can be saved substantially. The ADB-REMU has developed an Early Warning System which is already used as a part of surveillance in the ASEAN plus 3 Finance Ministers' Meeting. The weakness of this proposal is that the ADB-REMU is currently understaffed and underfunded. The ADB Board is represented by not only Asian countries but also American and European countries. The ADB is also a regional development bank. Therefore, ADB may not have a clear mandate to serve for a narrow subset of its members. In order for ADB-REMU to continue to be an independent surveillance unit for the ASEAN+3, it has to overcome potential criticism that a section is focused only on a subset of member countries; and that the ADB has to be subject to the interest of all shareholder countries.

The second possibility for the secretariat is the expanded ASEAN Secretariat, currently located in Jakarta. The organization already exists, and serves for surveillance among ASEAN countries. However, to become a secretariat, it should be expanded to include issues of Japan, China, and Korea as well as ASEAN countries. Staff should be also recruited from Plus-Three countries. Eventually, the plus-three countries' voice will be much larger in advising ASEAN countries. The so-called noninterference principle will disappear. Another weakness is that the ASEAN secretariat is underfunded and retain a very small program.

The third proposal is to establish the Plus-three secretariat for Japan, China, and Korea. Then the ASEAN secretariat and the Plus-three secretariat can send joint missions to ASEAN-plus-THREE countries. This will be a good starting point, if Japan, China, and Korea want to participate in the discussion. It is possible that ADBI can act as the Plus-three secretariat. The third option may eventually lead to the genuine ASEAN-plus-Three secretariat.

The fourth option is that a brand-new secretariat can be created from the beginning. Since many Asian countries have a large pile of foreign reserves, financing would not be such a problem, once the countries agree to the idea. It can start with a limited set of roles and small staff, and then can grow in budget and staff size.

ANNEX-1



(1) in London; (2) in Luxembourg; (3) in Brussels
source : http://europa.eu.int/comm/dgs/economy_finance/organisation/ecfin_org_chart_en.pdf

ANNEX-2

Year	Date	Place	Name of Meetings
1998	9/4	San Francisco	The Meeting between the Ministry of Finance Japan and the Treasury Secretary of the U.S.
	10/3	Washington, D.C.,	G-7 Finance Ministers and Central Bank Governors' Meeting
	10/4	Washington, D.C.,	The Meeting of the IMF Interim Committee
	10/5	Washington, D.C.,	The Meeting of the World Bank/IMF Joint Development Committee
	10/6-8	Washington, D.C.,	IMF/World Bank Annual Meeting
	12/15-16	Hanoi	The Japan-ASEAN Summit Meeting
1999	1/15-16	Frankfurt	ASEM Finance Ministers' Meeting
	2/20	Bonn	G-7 Finance Ministers and Central Bank Governors' Meeting
	4/26	Washington, D.C.,	G-7 Finance Ministers and Central Bank Governors' Meeting
	4/27	Washington, D.C.,	The Meeting of the IMF Interim Committee
	4/28	Washington, D.C.,	The Meeting of the World Bank/IMF Joint Development Committee
	4/30-5/2	Manila	ADB Annual Meeting
	5/15-16	Langkawi	APEC Finance Ministers' Meeting
	6/18-20	Cologne	G-8 Summit
	9/12-13	Auckland	APEC Leaders' Informal Meeting
	9/25	Washington, D.C.,	G-7 Finance Ministers and Central Bank Governors' Meeting
	9/26	Washington, D.C.,	The Meeting of the IMF Interim Committee
	9/26	Washington, D.C.,	The Meeting of the World Bank/IMF Joint Development Committee
	9/27	Washington, D.C.,	The Japan-ASEAN Finance Ministers' Meeting
	9/28-30	Washington, D.C.,	IMF/World Bank Annual Meeting
	10/25	Tokyo	The Japan-France Finance Ministers' Meeting
	11/28	Manila	The ASEAN+3 Finance Ministers' Meeting
	11/28	Manila	The Japan-ASEAN Summit Meeting
	12/15-16	Berlin	G-20 Finance Ministers and Central Bank Governors' Meeting
2000	1/22	Tokyo	G-7 Finance Ministers and Central Bank Governors' Meeting
	3/27-29	New Orleans	IDB Annual Meeting
	4/15	Washington, D.C.,	G-7 Finance Ministers and Central Bank Governors' Meeting
	4/16	Washington, D.C.,	The Meeting of the IMF International Monetary and Financial Committee
	4/17	Washington, D.C.,	The Meeting of the World Bank/IMF Joint Development Committee
	5/6	Chiang Mai	The ASEAN+3 Finance Ministers Meeting
	5/6-10	Chiang Mai	ADB Annual Meeting
	5/21-22	Riga	EBRD Annual Meeting
	5/30-6/1	Addis Ababa	AfDB Annual Meeting
	7/8	Fukuoka	G-8 Finance Ministers' Meeting
	7/21-23	Kyushu-Okinawa	G-8 Summit
	9/9-10	Brunei Darussalam	APEC Finance Ministers' Meeting
	9/23	Prague	G-7 Finance Ministers and Central Bank Governors' Meeting
	9/24	Prague	The Meeting of the IMF International Monetary and Financial Committee
	9/25	Prague	The Meeting of the World Bank/IMF Joint Development committee
	9/25	Prague	The ASEAN+3 Finance Ministers' Meeting

	9/26-27	Prague	IMF/World Bank Annual Meeting
	10/20-21	Seoul	ASEM Meeting

Year	Date	Place	Name of Meetings
	10/24-25	Montreal	G-20 Finance Ministers and Central Bank Governors' Meeting
	11/15-16	Brunei Darussalam	Annual APEC Economic Leader's Informal Meeting
	11/24-25	Singapore	ASEAN+3 Informal Summit Meeting
2001	1/13-14	Kobe	ASEM Finance Ministers' Meeting
	2/17	Palermo	G-7 Finance Ministers and Central Bank Governors' Meeting
	3/19-21	Santiago	IDB Annual Meeting
	4/23-24	London	EBRD Annual Meeting
	4/28	Washington, D.C.,	G-7 Finance Ministers and Central Bank Governors' Meeting
	4/29	Washington, D.C.,	The Meeting of the IMF International Monetary and Financial Committee
	4/30	Washington, D.C.,	The Meeting of the World Bank/IMF Joint Development Committee
	5/9	Honolulu	The ASEAN + 3 Finance Ministers' Meeting
	5/9-11	Honolulu	ADB Annual Meeting
	5/29-31	Valencia	AfDB Annual Meeting
	7/7	Rome	G-8 Finance Ministers' Meeting
	7/20-22	Genova	G-8 Summit
	9/8-9	Suzhou	APEC Finance Ministers' Meeting
	10/6	Washington, D.C.,	G-7 Finance Ministers and Central Bank Governors' Meeting
	11/17	Ottawa	G-20 Finance Ministers and Central Bank Governors' Meeting
	11/17	Ottawa	The Meeting of the IMF International Monetary and Financial Committee
	11/18	Ottawa	The Meeting of the World Bank/IMF Joint Development Committee
2002	1/21-22	Tokyo	The International Conference on Reconstruction Assistance to Afghanistan
	2/8-9	Ottawa	G-7 Finance Ministers and Central Bank Governors' Meeting
	3/11-13	Fortaleza	IDB Annual Meeting
	3/18-22	Monterrey	United Nations International Conference on Financing for Development
	4/21-22	Washington, D.C.,	The Meeting of the IMF International Monetary and Financial Committee
	4/21-22	Washington, D.C.,	The Meeting of the World Bank/IMF Joint Development Committee
	5/10-12	Shanghai	The ASEAN+3 Finance Ministers' Meeting
	5/10-12	Shanghai	ADB Annual Meeting
	5/19-20	Bucharest	EBRD Annual Meeting
	5/28-30	Addis Ababa	AfDB Annual Meeting
	6/15	Halifax	G-7 Finance Ministers' Meeting
	6/26-28	kananaskis	G-7 Summit
	7/5-6	Copenhagen	ASEM Finance Ministers' Meeting
	9/2-4	Johannesburg	World Summit on Sustainable Development (WSSD)
	9/5-6	Los Cabos	APEC Finance Ministers' Meeting
	9/27	Washington, D.C.,	G-7 Finance Ministers and Central Bank Governors' Meeting
	9/28	Washington, D.C.,	The Meeting of the IMF International Monetary and Financial Committee
	9/28	Washington, D.C.,	The Meeting of the World Bank/IMF Joint Development Committee
	9/29	Washington, D.C.,	World Bank/IMF Annual Meeting
	10/16-18	Beijing	Global Environment Facility (GEF) Assembly
	11/4	Phnum Penh	The ASEAN+3 Summit Meeting
	11/5	Phnum Penh	The Japan-ASEAN Summit Meeting
	11/22-23	New Delhi	G-20 Finance Ministers and Central Bank Governors' Meeting

Year	Date	Place	Name of Meetings
2003	2/21-22	Paris	G-7 Finance Ministers and Central Bank Governors' Meeting
	3/24-26	Milan	IDB Annual Meeting
	4/11-12	Washington, D.C.,	G-7 Finance Ministers and Central Bank Governors' Meeting
	4/12	Washington, D.C.,	The Meeting of the IMF International Monetary and Financial Committee
	4/13	Washington, D.C.	The Meeting of the World Bank/IMF Joint Development Committee
	5/4-5	Tashkent	EBRD Annual Meeting
	5/16-17	Deauville	G-8 Finance Ministers' Meeting
	6/1-3	Evian	G-8 Summit
	6/3-5	Addis Ababa	AfDB Annual Meeting
	6/30	Manila	ADB Annual Meeting
	7/5-6	Bali	ASEM Finance Ministers' Meeting
	9/4-5	Phuket	APEC Finance Ministers' Meeting
	9/19-20	Dubai	G-7 Finance Ministers and Central Bank Governors' Meeting
	9/21	Dubai	The Meeting of the IMF International Monetary and Financial Committee
	9/22	Dubai	The Meeting of the World Bank/IMF Joint Development Committee
	9/23-24	Dubai	IMF/World Bank Annual Meeting
	10/20-21	Bangkok	APEC Economic Leaders' Meeting
	10/26-27	Morelia	G-20 Finance Ministers and Central Bank Governors' Meeting
2004	2/6-7	Boca Raton	G-7 Finance Ministers and Central Bank Governors' Meeting
	3/29-31	Lima	IDB Annual Meeting
	4/23-24	Washington, D.C.,	G-7 Finance Ministers and Central Bank Governors' Meeting
	4/24	Washington, D.C.,	The Meeting of the IMF International Monetary and Financial Committee
	4/24	Washington, D.C.,	The Meeting of the World Bank/IMF Joint Development Committee
	4/19-20	London	EBRD Annual Meeting
	5/16	Jeju Island	ADB Annual Meeting
	5/15	Jeju Island	The ASEAN + 3 Finance Ministers' Meeting
	5/22-23	New York	G-7 Finance Ministers' Meeting
	5/25-27	Kampala	AfDB Annual Meeting
	6/8-10	Sea Island	G-8 Summit

<Abbreviations for the Frameworks>

ASEAN : Association of Southeast Asian Nations

ASEM : Asia-Europe Meeting

IMF : International Monetary Fund

APEC : Asia-Pacific Economic Cooperation

IDB : Inter-American Development Bank

ADB : Asian Development Bank

EBRD : European Bank for Reconstruction and Development

AfDB : African Development Bank

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