UNIVERSIDADE DE SÃO PAULO
INSTITUTO DE RELAÇÕES INTERNACIONAIS

DEBORA RAMIRES PELISSON

Tracing the institutionalization process of informal institutions: the case study of the Chiang Mai Initiative Multilateralization

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Rastreando o processo de institucionalização de instituições informais: o estudo de caso da *Chiang Mai Initiative Multilateralization*

Resumo

O objetivo geral deste trabalho é entender o desenho institucional dos acordos regionais de financiamento (ARFs). O objetivo específico é entender o desenho institucional da *Chiang Mai Initiative Mutilateralization* (CMIM) que se afasta dos outros casos de ARFs presentes no atual sistema financeiro internacional, no que se refere ao grau de formalidade. Diferentemente dos outros ARFs, a CMIM apresenta um desenho institucional informal, caracterizado pela ausência de um secretariado permanente e por um formato de mecanismo de suporte à liquidez não baseado em um fundo regional de reservas, mas em um acordo multilateral de swap. Seguindo uma análise *process tracing*, o estudo argumenta que o desenho institucional informal da CMIM é resultado de três condições combinadas - sistêmicas, domésticas e regionais. As condições sistêmicas estão relacionadas aos desafios comuns que os estados devem superar, em qualquer processo de cooperação. Conforme proposto pela literatura de *Rational Design of Institutions*, a forma como os membros da CMIM superaram limitações estruturais, como incerteza, custos de soberania, custos de negociação, dificuldades no cumprimento de regras, entre outros, explica o menor grau de formalidade do arranjo regional. Em relação às condições domésticas, o trabalho demostra que o Ministério das Finanças do Japão e o Banco Central Chinês concentraram os poderes necessários (*de jure* e *de fato*) para moldar institucionalmente a CMIM, de acordo com suas preferências e interesses. Finalmente, o estudo também revela como a experiência prévia dos membros da CMIM com o regionalismo econômico associado à criação e implementação de instituições influenciou o desenho institucional informal da CMIM. Este estudo de caso reúne três importantes contribuições. Primeiro, ele contribui para o grupo de estudos sobre a CMIM, ao propor uma abordagem que busca entender o processo de institucionalização da CMIM em si mesmo. Segundo, propõe-se um modelo de análise que pode ser aplicado para examinar o desenho institucional de outros ARFs sob uma perspectiva comparada. Terceiro, oferece *insights* acerca de como o estudo do desenho institucional dos ARFs lança luz sobre os desenvolvimentos futuros da arquitetura financeira internacional.

Palavras-chave: *Chiang Mai Initiative Mutilateralization*, acordos regionais de financiamento, desenho institucional, cooperação financeira, arquitetura financeira internacional.

Tracing the institutionalization process of informal institutions: the case study of the Chiang Mai Initiative Multilateralization

Abstract

The main objective of this thesis is to understand the institutional design of regional financing arrangements (RFAs). The specific goal is to understand the institutional design of the Chiang Mai Initiative Multilateralization (CMIM), which deviates from the other RFAs that currently exist in the international financial system in terms of level of formality. Differently from the other RFAs, the CMIM adopts an informal institutional design characterized by the absence of a permanent secretariat and by a format of liquidity support mechanism not based on a reserve pooling fund but on a swap multilateral agreement. Following a process tracing analysis, the study contends that the CMIM's informal institutional design is a result of three combined conditions – systemic, domestic and regional. Systemic conditions are related to the common challenges that states should overcome in any cooperation process. As proposed by the Rational Design of Institutions literature, the manner that CMIM's members have coped with structure constrains such as uncertainty, sovereignty costs, bargaining costs, enforcement problems, among others explain the low level of formality of the regional arrangement. For domestic conditions, the analysis shows that the Japanese Ministry of Finance and the Chinese Central Bank have concentrated the power needed (both *de jure* and *de facto*) for building the CMIM according to their preferences and interests. Finally, the study also demonstrates how the previous experience of CMIM's members with economic regionalism and institution-building has influenced the CMIM's informal institutional design. The CMIM case study intends to make three important contributions. First, it seeks to contribute to the literature on the CMIM by proposing an inward approach to understand the CMIM's institutionalization process *per se*. Second, it proposes a model of analysis that can be applied to examine the institutional design of other RFAs in a comparative perspective. Third, it offers insights on how the study of RFAs' institutional design may shed light on future developments of the international financial architecture.

Keywords: Chiang Mai Initiative Multilateralization, regional financing arrangements, institutional design, financial cooperation, international financial architecture.

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List of Abbreviations

ADB – Asian Development Bank

AEC – ASEAN Economic Community

AFCDM+3 – ASEAN+3 Finance and Central Bank Deputies' Meeting

AFMGM+3 – ASEAN+3 Finance Ministers and Central Bank Governors' Meeting

AFMM+3 – ASEAN+3 Finance Ministers Meeting

AFTA – ASEAN Free Trade Area

AMF – Arab Monetary Fund

AMF – Asian Monetary Fund

AMRO – ASEAN+3 Macroeconomic Research Office

APEC – Asia-Pacific Economic Cooperation

ASA – ASEAN Swap Arrangement

ASEAN – Group of 10 countries: Thailand, Malaysia, Philippines, Singapore, Indonesia, Vietnam, Cambodia, Laos and Myanmar

ASEAN+3 – ASEAN plus China, South Korea and Japan

BIS – Bank for International Settlements

BOJ – Bank of Japan (Japanese Central Bank)

BRICS – Brazil, Russia, India, China and South Africa

BSA – Bilateral Swap Agreement

CASS – Chinese Academy of Social Sciences

CCL – Contingent Credit Lines

CCP – Chinese Communist Party

CeMCoA – Center for Monetary Cooperation in Asia

CIC – China Investment Corporation

CMI – Chiang Mai Initiative

CMIM – Chiang Mai Initiative Multilateralization

CMIM-PL – CMIM Precautionary Line

CMIM-SF – CMIM Stability Facility

CRA – Contingent Reserve Arrangement

EAEG – East Asian Economic Group

EFSD – Eurasian Fund for Stabilization and Development

ELDMB – Executive Level Decision Making Body

EMEAP – Executives' Meeting of East Asia-Pacific Central Banks

ERPD – Economic Review and Policy Dialogue

FCL – Flexible Credit Line

FDI – Foreign Direct Investment

FED – US Federal Reserve

FEFSA – Foreign Exchange Fund Special Account

FIGO – Formal Intergovernmental Organization

FLAR – Fondo Latinoamericano de Reservas

FPA – Foreign Policy Analysis

FSB – Financial Stability Board

GDDS – General Data Dissemination System

GFSN – Global Financial Safety Net

IIGO – Informal Intergovernamental Organization

IIMA – Institute for International Monetary Affairs

IMF – International Monetary Fund

IPN – International Production Networks

IPO – Initial Public Offering

JMS – Jupille, Mattli and Snidal

KSL – Koremenos, Snidal and Lipson

LDP – Liberal Democratic Party

MF – Chinese Minister of Finance

MFA – Chinese Minister of Foreign Affairs

MLDMB – Ministerial Level Decision Making Body

MOF – Japanese Minister of Finance

NDRC – National Development and Reform Commission

OCA – Optimum Currency Area

PBC – People's Bank of China (Chinese Central Bank)

PLL – Precautionary and Liquidity Line

RDI – Rational Design of Institutions

RFA – Regional Financing Arrangements

RFI – Rapid Financing Instrument

RMB – Renminbi

SAFE – State Administration of Foreign Exchange

SBA – Stand-By Arrangement

SDR – Special drawing Rights

SDSS – Special Data Dissemination Standard

SOB – State Owned Bank

Contents

Introduction

The question of '*how and why international institutions are designed as they are*' has already been asked by many international relations scholars. Some of them have conducted theoretical analyses, proposing generalizations about the conditions that explain why states choose specific institutional attributes – membership, scope of issues covered, enforcement mechanisms, delegation of authority, binding rules or non-legally binding commitments. Others have done empirical studies to test the theoretical propositions to real-world international institutions in different areas of international relations – security, trade, environment, among others (Goldstein et al., 2000; Abbot & Snidal, 2000; Koremenos, Lipson & Snidal, 2001; Epstein & O'Halloran, 2008; Vaubel, 2006; Bradley & Kelly, 2008; Vabulas & Snidal, 2013). This thesis applies the same question to investigate the institutional design of the Chiang Mai Initiative Multilateralization (CMIM), an international institution that is part of a set of institutions known as regional financing arrangements (RFAs).

RFAs are mechanisms or agreements through which groups of countries mutually pledge financial support to countries experiencing financial difficulties in their regions. The historical analysis of the international financial system reveals that financial crises have essentially prompted the creation of RFAs, which were established to help countries facing pressures on their balance of payments related to external liquidity needs. As examples, we can mention: (i) the establishment in 1991 of the Latin America Reserve Fund to support countries in the context of the Latin American external debt crisis in the 1980s; (ii) the implementation of the CMIM by ASEAN+3 countries in the aftermath of the 1997 Asian financial crisis and; (iii) the creation of the European Stability Mechanism, the Eurasian Fund for Stabilization and Development and the BRICS Contingent Reserve Arrangement as responses to the 2008/09 global financial crisis (Mühlich, 2014). Gathering an approximate amount of US$ 1 trillion in available financial resources (IMF, 2017), the international community has recently recognized the important role that these arrangements can play in ensuring the stability of the international financial system by functioning as complements to the IMF's funds and surveillance activities.[1]

Beyond the importance of RFAs in reducing countries' vulnerabilities to international capital flows and enhancing the global financial safety net, this study intends to examine the

[1] Joint Statement of the G20 Finance Ministers and Central Bank Governors, Paris, France, 14-15 October 2011. Available at: https://www.ief.org/_resources/files/pages/partners/g20-communique-14-15-october-2011.pdf. Accessed on 18 August 2019.

outcomes of monetary and financial cooperation not in terms of the economic effectiveness of RFAs but in terms of institutional design. Generally speaking, international institutions can be classified as formal or informal organizations depending on: (i) organizing principle (if they are formed by a legal treaty or just represent shared expectations of members that do not involve binding rules); (ii) membership (if there are formal rules of membership) and; (iii) degree of organizational structure (basically, if members agree on delegating authority to an independent secretariat or permanent staff) (Pevehouse et al., 2004; Vabulas & Snidal, 2013). Among the RFAs that currently exist in the international financial system, the CMIM can be interpreted as an 'empirically' deviant case, because it presents lower level of formality in comparison to the other arrangements. The CMIM's informal institutional design is observed primarily in two aspects: organizational structure and RFA format. Regarding the first one, the CMIM is the only RFA that does not have a permanent secretariat or staff, indicating a desire of members in a lesser extent to delegate authority and to renounce state sovereignty. With respect to the second aspect, differently from the other RFAs that are reserve pooling arrangements, the CMIM is a multilateral swap agreement. In reserve pooling arrangements, members make their financial contributions as paid-in capital transferring their funds to the regional organization; in the swap format, members' resources remain under the control and management of national monetary authorities, and funds are only transferred in case of approval of a swap activation request.

To investigate the CMIM's informal institutional design, I apply a process tracing methodology, aiming to elucidate the causal mechanisms by which certain conditions operate to produce my outcome of interest – the CMIM's informal institutional design. I examine three type of conditions: systemic, domestic and regional. Systemic conditions are analyzed through the lens of the Rational Design of Institutions (RDI) framework (Abbot & Snidal, 2000; Koremenos, Lipson & Snidal, 2001; Vabulas & Snidal, 2013). According to the RDI literature, states choose institutional attributes of international institutions – membership, scope, centralization, control and flexibility – to overcome common challenges stemmed from cooperation – uncertainty, sovereignty costs, bargaining costs, enforcement problems, etc. Depending on how these institutional aspects are chosen by states, institutions can be located in different positions in a spectrum ranging from formal to informal institutions. I conduct a theory-confirming case study to verify if the hypothesized causal mechanisms proposed by the RDI literature explain the informal institutional design of the CMIM. Then, pursuing to carry out a robust application of process tracing, I consider alternative explanations for the RDI framework, incorporating domestic and regional conditions to the study. On domestic side, I focus the analysis on China and Japan, because they are the CMIM's main creditor countries, and I examine the role of domestic actors in shaping the CMIM's institutional design. Based on the Bureaucratic Politics Model developed by Allison (1971), I argue that the Japanese Ministry of Finance and the Chinese Central Bank have concentrated the power needed (both *de jure* and *de facto* sources of power) for building the CMIM according to their preferences and interests. Finally, by taking into account regional conditions, I follow a path dependence analysis to explore how the past experience of ASEAN+3 countries with regional economic cooperation and institution-building has also determined the CMIM's informal institutional design.

This thesis intends to contribute to the literature on the CMIM by proposing an inward approach that seeks to understand the CMIM's institutionalization process *per se*. Other studies have already analyzed institutional aspects of the CMIM but often oriented towards a wider context such as: the relationship of the CMIM with the IMF, the East Asian regionalism, the US influence, the Sino-Japanese power relations, among others. My objective instead is to conduct a serious examination of the CMIM's institutionalization to determine which conditions have operated through this process. More broadly, the CMIM case study sheds light to a phenomenon that has been growing in international relations and attracting attention of scholars: the proliferation of informal institutions. This work reinforces the argument that international actors have been favoring this institutional form when decide to create an international institution. Since informal institutions have been increasing in importance, the study of the CMIM helps to understand how this informal character has been spreading within the international financial architecture through new arrangements such as the bilateral swap agreements and the BRICS Contingent Arrangement.

The thesis is divided as follows. In Chapter 1, I detail the research puzzle, presenting an analysis of the historical context of the CMIM's creation and its main institutional aspects; the justifications for case selection; the research design and methodology adopted and; my contributions to the literature on the CMIM and other studies related to informal institutions, RFAs and the international financial system. Next, in chapter 3, I point out the central propositions of the RDI framework regarding formal and informal institutions and I compile the systemic conditions that are analyzed in the CMIM case study. For the analysis, I propose four conjectures or hypothesized casual mechanisms that are tested for the CMIM and make a paired comparison between the regional arrangement and the IMF, aiming to reinforce the explanation of ASEAN+3 countries' preferences for an informal institutional format for the

CMIM. After, in chapter 3, I present the Bureaucratic Politics Model adopted to understand how domestic conditions have operated to affect the CMIM's institutional design. I identify the sources of power (*de jure* and *de facto*) that have allowed the Japanese Ministry of Finance and the Chinese Central Bank to influence the CMIM's policymaking and shape the regional arrangement in line with their interests and preferences. An extensive empirical analysis of the CMIM's institutionalization process evidences the argument proposed. To conclude this chapter, I demonstrate the CMIM's spillover effects in the international financial architecture through the analysis of two other informal arrangements that have their origins associated with the CMIM: the bilateral swap agreements signed by China and the BRICS Contingent Arrangement. Then, Chapter 4 focuses on regional conditions by making a review of East Asian economic regionalism and Asian countries' experience with liquidity support mechanisms. The chapter also reflects on the importance of considering the regional context and regional particularities in studies of monetary and financial cooperation and institution-building. Finally, the conclusion section summarizes the results achieved and presents the theoretical implications of the study and future research developments raised by it.

Chapter 1: Research Puzzle

1.1 Regional Financing Arrangements

The latest wave of establishment of regional financial organizations can be traced to financial crises, which often call attention to limitations of the prevailing financial order and institutional architecture and prepare the ground for systemic changes. A crucial legacy of the recent crises (in the 1990s and 2008) is the willingness and ability of emerging markets to undertake institutional innovations of crisis financing and the rising of their influence in international financial politics. Governments around the world have been motivated to build regional alternatives to incumbent institutions, especially the International Monetary Fund (IMF), that may increase substantially their resources and capacity to manage financial crisis (Kahler, 2016; Grabel, 2019). These new institutions known as regional financing arrangements (RFAs) are '*a financing mechanism backed by pooled resources through which a group of countries pledge common financial support to a fellow member in the event of external liquidity needs or balance of payments difficulties*' (IMF, 2017).

The motivations behind the deepening of regional monetary and financial cooperation and establishment of RFAs have changed over time. In the 1970s, the excess of liquidity of oil-countries prompted the creation of the Arab Monetary Fund (AMF) to provide credit to poorer countries and redistribute wealth in the region. The Latin America Reserve Fund (Fondo Latinoamericano de Reservas – FLAR)[2] was founded as a regional self-insurance arrangement in the context of the debt crises of Latin American countries during the 1980s. The 1997 Asian financial crisis and the 2008 global financial crisis led to the perception that independent regional arrangements were needed to avoid the conditionalities and policies of the IMF. As a result, we observed the launching of the Chiang Mai Initiative Multilateralization (CMIM), the Eurasian Fund for Stabilization and Development (EFSD) and the BRICS Contingent Reserve Arrangement (CRA) (Dieter, 2006; Fritz & Mühlich, 2018).

The rise of RFAs across different regions reopens the debate on what constitutes the global financial safety net (GFSN) and what are the roles of these arrangements in the

[2] The FLAR is an evolved version of the Andean Reserve Fund (Fondo Andino de Reservas – FAR) created in 1978.

international financial system.[3] In the last 10 years, since the 2008 financial crisis, the amount of funds available for short-term liquidity support has been increasing. Comparing the resources of the IMF and RFAs, we observe that they are not too distant: US$ 653 billion and US$ 445.6 billion, respectively (Kring & Gallagher, 2019). In such scenario, the most commonly asked question is whether RFAs are inaugurating a new global order on financial issues, serving as complements or substitutes of the IMF (Henning, 2002; McKay et al. 2011). Some scholars argue that countries have established RFAs seeking to substitute the Fund in their regions and, thus, reduce the influence of advanced economies of North America and Europe over domestic economic policies (Kawai, 2015; Lee, 2008, Henning, 2016). In the words of Armijo and Katada (2014), states make use of RFAs as a defensive systemic financial statecraft to protect domestic economy from external pressures.[4] Other observers call for a better coordination among RFAs, the IMF and regional governments to attenuate the uncertainty around the management of financial crises (Grabel, 2019; Henning, 2017; Ocampo, 2017; UNCTAD, 2015; Volz, 2016).

Clearly, RFAs have been transforming into larger and more capable institutions to deal with liquidity needs, bringing implications to the global financial governance either positives or negatives. On the one hand, RFAs are explicitly embedded in the existing financial system and can improve its functionality and capacity through additional resources – financial and organizational – when incumbent institutions are tightly constrained. On the other hand, they can also be seen as a threaten to the international financial stability, since their growing in size and scope may create divergences and disagreements with the IMF, displacing the Fund and contributing to the formation of a more decentralized and fragmented financial architecture. A division of labor between the IMF and RFAs may easily become a damaging fragmentation if an agreement on operational specialization is not achieved. For instance, fragmentation could produce lending by RFAs that would not be coordinated with the IMF. Rather than inducing innovation and effectiveness, the competition among institutions may lead to normative

[3] GFSN is a '*set of financial resources and institutional arrangements that provide a backstop during a financial or economic crisis. The safety net is a form of insurance against crises that affect a country's external payments. By addressing this risk to domestic economies, the safety net supports the stability of the international monetary system*' (Hawkins et al. 2014).

[4] Financial statecraft is defined as the intentional use, by national governments, of a country's financial or monetary capacities to achieve objectives of foreign policy either political, economic or financial. The financial statecraft can be defensive, when states intend to protect domestic economy from external pressures (capital controls, regional stabilization fund); or it can be offensive, when states aim to modify the behavior of other states or the conditions of the international environment through an active engagement (bilateral lending). A systemic financial statecraft seeks to influence global financial markets or governance of institutions and practices (Armijo & Katada, 2014).

divergences and conflict over policy prescriptions. Consensus between global and regional institutions on purposes and principles and development of an agreed division of labor could serve as an assurance against destructive competition. In such sense, the global financial architecture that emerges can be interpreted as increasingly incoherent, constituted by overlapping, redundant and interconnected institutions, which may complement the IMF or compete with it (Kahler, 2016; Volz, 2016; Grabel, 2019; Kring & Grimes, 2019).

As we can see from the debate above, the study of RFAs is a relevant issue, and researches on how these arrangements can modify the global financial governance have been growing. I seek to contribute to this debate and to the wider debate of international financial cooperation through a case study of a specific RFA: the CMIM. In the next section, I present an historical overview of the development of this arrangement and the main aspects of its institutional design. Then, I turn to the arguments for the case selection, I explain the research design and methodology and I present my contributions to the current literature as well as the justifications of how the study of the CMIM adds to the understanding of the actual GFSN.

1.2 Chiang Mai Initiative Multilateralization

1.2.1 Historical Context

The financial crisis of 1997-98 was a combination of banking and currency crises. The banking sector played a critical role in granting large amounts of short-term loans denominated in foreign currency that were used to finance domestic long-term investments and contributed to cause double-mismatch problems to East Asian economies. The currency crisis was marked by the sudden flight of short-term capital that led to sharp devaluations of domestic currencies. Fixed exchange rate systems adopted my most countries in East Asia collapsed, resulting in inflation, insolvency of financial institutions, companies' bankruptcies and economic recession (Radelet & Sachs, 1998; Kaminsky & Reinhart, 1999).

Despite its painful consequences to regional economies, the crisis can be understood as a critical juncture[5] that has transformed economic regionalism in East Asia towards cooperation

[5] Critical junctures are defined as radical changes in the logic, nature and operation of economic and political institutions. Examples of critical junctures are wars, political and economic crises, etc (Clift, 2014). The 1997 financial crisis was a critical juncture that has changed the course of regional cooperation and development of regional institutions in East Asia as stated in the following passage of the East Asian Study Group Report presented at the 6th ASEAN+3 Summit, November 2002: '*In confronting similar challenges of nation-building and economic development with similar historical and cultural backgrounds, some countries in East Asia had, till the mid-1990s, successfully attempted to develop cooperation, as exemplified by the formation and expansion of ASEAN and the*

and institutionalization in monetary and financial areas (Hamada, Reszat & Volz, 2009). Three are the reasons that explain the rapid development of regional monetary and financial cooperation (Katada, 2014). The first one is related to difficulties faced by countries during the crisis. Heavy dollar dependence, lack of exchange rate policy coordination, excess of banking financing and underdeveloped financial markets urged national authorities to rethink regional and domestic financial architectures. At domestic level, countries sought to increase exports (Ravenhil, 2008), improve corporate governance rules (Gourevitch, 2008), adopt international standards for monitoring financial sector activities (Walter, 2008, Hamilton-Hart, 2008), develop capital markets (Amyx, 2008) and accumulate huge amounts of foreign exchange reserves (Mohanty & Turner, 2006). At regional level, governments recognized that existing institutions – ASEAN, Asia-Pacific Economic Cooperation (APEC) and Asian Development Bank (ADB) – were not suitable in terms of institutional structure and financial resources to aid countries facing short-term liquidity needs (Webber, 2001).[6] Moreover, the deepness of regional economic interdependence increased the propensity of the region to experience spillover effects (Noble & Ravenhill, 2000) and prompted the adoption of collective measures, such as regional arrangements, to reduce countries' vulnerabilities to international capital flows (Cai, 2010). The second reason stems from the conflictual relationship between East Asia and the West, especially the IMF and the US (Bhagwati, 1998; Wade, 1998). According to neoliberals, the practices associated with 'crony capitalism' – state intervention in the economy and close relations among politicians, business and bank managers – that marked the economic development of Asian countries were also understood as the conditions that led to the Asian financial crisis and needed to be abandoned through structural reforms imposed by the IMF to countries that received loans in the aftermath of the crisis. For Asian governments, however,

long-lasting cooperative schemes between ASEAN and Japan, as well as in ASEAN's dialogue relations with China and Korea. Nevertheless, such potential had not been commonly perceived seriously, and cooperation had not subsumed the whole East Asian region, till the Asian financial crisis in 1997 that poured cold water on East Asia's economic miracle. It was in fact this very event that tempered and toughened this region, re-awakening us to the value of working together and building a solid framework for cooperation in this region'.

[6] ASEAN was originally founded by Indonesia, Malaysia, Philippines, Singapore and Thailand in 1967, when East Asian region was seriously divided by ideological conflicts, wars, civil insurgences and economic crisis. In the 1990s, ASEAN expanded to incorporate Vietnam, Cambodia, Laos and Myanmar. Although the organization experienced a reorientation process in the 1980s and 1990s from security and military issues to economic cooperation (Rüland, 2000), the main efforts were concentrated on trade relations. APEC was established in the end of the 1980s to enhance trade relations and economic cooperation in the Pacific zone (Webber, 2001). For Asian governments, APEC was a tool of US foreign policy used to secure American influence in Asia. During the crisis, APEC endorsed IMF's policies for the region (Kahler, 2000). ADB is a development bank created in 1966 to provide long-term financing to help the economic development of low and medium-income countries in the region and had not played a role in the origins of monetary regionalism (Katada, 2017).

the IMF's conditionalities[7] worsened countries' economic situation and helped to spread a strong opposition in the region to the Fund's policies, strengthening countries' efforts to deepen regional financial cooperation and institution-building to reduce Western influence in regional issues (Higgott, 1998). Finally, the last reason reflects the motivation of Asian nations to play a more significant role in the global economic governance through monetary and financial regionalism since the prospects of reforms in international institutions were not optimistic at that moment (Park & Wang, 2002).

The so-called 'defensive regionalism' that has developed in East Asia after the 1997 financial crisis was intended to protect states from both external shocks and the interference of Western economies in domestic economic policies through the IMF (Munakata, 2006). Japan made the first proposal of establishment of a regional financing arrangement, bringing up the idea of a regional fund similar to the IMF denominated Asian Monetary Fund (AMF).[8] The AMF was officially announced in September 1997 at the IMF and the World Bank Annual Meeting. In the occasion, many controversies about the proposal emerged. The first one was the exclusion of the US. Apparently, Japan was willing to build a regional institution free from the US influence, and finance officials tended to prioritize relations with Asian countries instead of US relations. Moreover, Japan adopted a skeptical position in relation to the effectiveness of structural adjustment policies linked to the Washington Consensus ideas and stood against the IMF's programs during the financial crisis (Hayashi, 2006). The second was the lack of definition regarding the relationship between the AMF and the IMF. It was not clear if AMF's funds would complement IMF's resources and which conditionalities would be attached to AMF's loans. As expected, the IMF and the US radically opposed to Japanese proposal, arguing that the regional fund would increase moral hazard as countries would borrow funds without conditionalities. Third, the regional arrangement was considered a threat to the IMF's role as the principal lender of last resort in East Asia. Finally, the US was concerned about losing its sphere of influence in East Asia to Japan, a fact that became evident during the negotiations of Thailand's financial rescue package, when Japan assumed a central role as the main contributor,

[7] The IMF's conditionalities refer to the policy measures a government agrees to undertake when borrowing from the Fund. Conditionalities have the purpose of helping the borrower to correct problems that led to asking for financial aid and ensure the loan repayment. These conditions are commonly related to fiscal austerity, monetary tightening and capital account liberalization.

[8] The AMF would be composed by the following countries: Australia, China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea and Thailand (Hayashi, 2006).

and the US refused to provide any assistance.[9] The AMF received support from ASEAN countries and Korea.[10] China remained silent, preventing to back any regional initiative that might have encouraged Japanese leadership in the region (Hayashi, 2006).[11]

Despite Japanese failure in implementing the AMF, Japanese proposal contributed to start debates among Asian governments on deepening regional monetary and financial cooperation, which strengthened after ASEAN countries had invited China, Japan and Korea to participate in the formal and informal meetings of the group. The first ASEAN+3 meeting occurred in December 1997 in Kuala Lumpur, Malaysia, on the sidelines of ASEAN Annual Meeting. In December 1998, ASEAN governments decided to maintain regular meetings with China, Japan and Korea, and the ASEAN+3[12] was officially launched at the ASEAN Annual Meeting of November 1999. At the occasion, countries signed the 'Joint Statement on East Asia Cooperation' by which they agreed to cooperate in many issues: international relations, economy, trade, finance, environment, energy, health, labor, science, technology, welfare, etc. Due to the urgency of measures to deal with the crisis negative effects, cooperation on monetary and financial issues became top priority. China with Korea's support[13] proposed the establishment of regular meetings among officials from ASEAN+3 central banks and ministries of finance. The ASEAN+3 Finance Ministers Meeting (AFMM+3) and, after, the ASEAN+3 Finance Ministers and Central Bank Governors' Meeting (AFMGM+3) have turned into the official forum for regional monetary and financial cooperation.

The Chiang Mai Initiative (CMI) was launched in May 2000 at the AFMM+3 in Chiang Mai, Thailand, with the following objectives: (i) to address balance of payments and short-term liquidity difficulties in the ASEAN+3 region and (ii) to supplement existing international

[9] Japan organized a well-succeeded meeting in Tokyo in August 1997 to obtain with other countries additional loans to the IMF's financial aid. The financial rescue package reached a total amount of approximately US$ 17 billion, being US$ 4 billion provided by the Japanese government (Pelisson, 2015).
[10] It refers to South Korea.
[11] In response to the AMF, the US and the IMF proposed another initiative, the Manila Framework, at a meeting in November 1997 of representatives from central banks and ministries of finance of ASEAN+3, Australia, Canada and New Zeeland. Reaffirming the central role of the IMF in the region, the initiative had the purpose of deepening regional cooperation to provide financial stability. The group ended in 2003 due to its ineffectiveness and few contributions (Kawai, 2015).
[12] The ASEAN+3 is composed by China, Korea, Japan, Indonesia, Malaysia, Thailand, Singapore, the Philippines, Cambodia, Vietnam, Laos, Myanmar and Brunei.
[13] '*As East Asia may become one of the assault targets of international capital and in absence of a rational international financial system and a full-fledged financial supervision and regulation system in regional countries, it is still a heavy task to guard against and prevent financial risks. In this connection, financial cooperation should be one of the focuses for the current East Asian cooperation.*' (Statement of Chinese Premier Zhu Rongji during the 3rd Summit of ASEAN+3 in 11/28/1999).

financial arrangements.[14] The CMI included the ASEAN Swap Arrangement (ASA)[15], which was expanded to all ASEAN countries reaching a total amount of US$ 1 billion, and a network of bilateral swap agreements among ASEAN countries, China, Japan and Korea. 10% of swap funds could be withdraw without an IMF-supported program, which means that the remaining amount – 90% of the funds – could be only accessed if the requesting party submitted to Fund's conditionalities established in the IMF adjustment economic programs. ASEAN+3 countries also agreed to exchange bilaterally, on a voluntary basis, consistent and timely data and information on capital flows and, as a first regional surveillance mechanism, they set up a network of contact persons to conduct economic and financial monitoring and policy dialogues (AFMM+3, 2000; 2001).

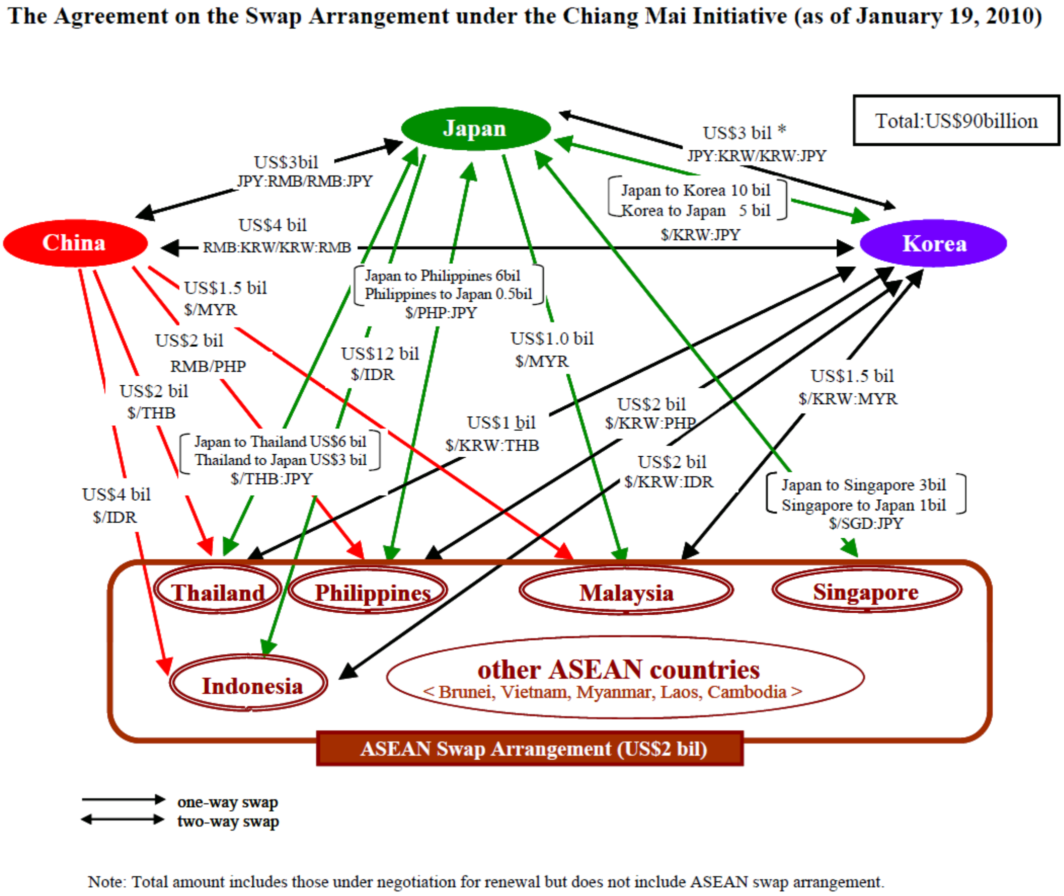
Bilateral swap agreements have the following dynamic: when a swap is activated, one part of the agreement exchanges its currency for the other's currency or a hard currency, such as US dollars, based on a market exchange rate at the time of the signature of the agreement. The parties agree on the amount that will be exchanged and the validity period – the period that the agreement is available for activation by one of the parties. Swap is reversed when the parties exchange back the same amount of currency at the initial exchange rate. In most cases, one party is the borrower (the party that activates the agreement) and the other party is the creditor (the party that provides hard currencies from its foreign exchange reserves). The agreements may be reciprocal, which means that both parties can assume the borrower position, or unilateral, when there is a clear definition of each party – borrower or creditor (Edwards, 1985; McDowell & Steinberg, 2017).

In the beginning, most bilateral swap agreements signed under the CMI were unilateral. In 2005, ASEAN+3 agreed to review CMI's operational procedures towards multilateralization, which resulted in significant changes in the arrangement: all swaps became reciprocal; a collective mechanism of swap activation was established (the borrower should draw funds proportionally from all of its bilateral swap partners); the ASA was expanded to US$ 2 billion; and the IMF de-linked portion increased from 10% to 20%. In 2010, the network of bilateral swaps agreements reached the total amount of US$ 90 billion as shown in Figure 1.

[14] CMIM documents are available at http://www.amro-asia.org/key-points-of-the-cmim-agreement/. Accessed on 16 July 2018.

[15] The ASEAN Swap Arrangement was established in 1977 by ASEAN five original members – Indonesia, Malaysia, Thailand, the Philippines and Singapore – as a multilateral swap agreement with a total amount of US$ 100 million (Memorandum of Understanding on the ASEAN Swap Arrangements, Kuala Lumpur, 5 August 1977. Available at http://asean.org/. Accessed on 15 May 2017.

Figure 1: Bilateral Swap Agreements under the CMI, 2010



Source: Japanese Ministry of Finance. Available at: http://warp.ndl.go.jp/info:ndljp/pid/11194366/www.mof.go.jp/english/international_policy/convention/asean_plus_3/index.htm

In 2007, the multilateralization process advanced. ASEAN+3 agreed that the arrangement should take the format of a self-managed reserve pooling governed by a single agreement (AFMM+3, 2007). In the next year, governments established the size – US$ 80 billion – and the proportion of financial contributions from ASEAN and +3 countries – 20:80 respectively (AFMM+3, 2008). The 2008 global financial crisis urged the need for transforming multilateralization plans into an operational framework. Regardless the fact that East Asia was exposed again to risks associated with capital volatility, the speediness of CMI's multilateralization was largely motivated by Korea's, Singapore's and Indonesia's decision on resorting to other crisis financing mechanisms instead of activating CMI's agreements. Korea and Singapore accessed external funds by signing bilateral swap agreements with the FED in a total amount of US$ 30 billion. Indonesia received funds from the World Bank (US$ 2 billion), the ADB (US$ 1.5 billion), Australia (US$ 1 billion) and Japan (US$ 1 billion) (Kawai, 2015).

These events made clear the importance of advancing on changes in CMI's institutional design to enhance its effectiveness both in terms of financial size and activation procedures. The multilateralization agreement – the Chiang Mai Initiative Multilateralization (CMIM) – came into force in March 2010. The agreement established a multilateral swap arrangement by which ASEAN+3 countries could exchange domestic currencies for US dollars. The size was set up in US$ 120 billion, and each member would access an amount of funds equal to the multiple of its financial contribution (AFMM+3, 2010).

1.2.2 Institutional Structure

In this section, I present the main institutional aspects of the CMIM's current configuration.[16]

Total Size, Contributions and Voting Powers

In 2012, the total size of the arrangement increased to US$ 240 billion and the IMF-delinked portion to 30%. Table 1 exhibits the current share of each member in the arrangement (equivalent to their financial contributions) and the respective amount of funds that they have access. Clearly, the CMIM has two distinct groups: the creditor countries – China and Japan – with the largest financial contributions and the borrowers represented by Korea and ASEAN countries. The financial contributions to CMIM were made through the exchange of Commitment Letters among central banks that committed to provide financial support up to the amount of each member's respective contribution in case of a swap activation request. In principle, each of the CMIM's parties may only escape from contributing to a swap request by obtaining an approval of the executive decision-making body. In exceptional cases such as an extraordinary event or instance of *force majours* and domestic legal limitations, escape is possible without obtaining the approval. In this case, other members must make up the difference up to their contribution limits. In respect to voting powers, members' votes are a result of the sum of basic votes, which are equal for all members, and financial contributions.

[16] All information of this section was accessed at https://amro-asia.org/about-amro/amro-and-the-cmim/. Accessed on 19 August 2019.

Table 1: Financial Contributions (US$ billion) and Voting Power Distribution

Countries	Financial Contribution	Share (%)	Maximum Swap Amount		IMF-CMIM		Voting Power		
			Purchasing Multiple	Total	De-linked Portion (30%)	Linked Portion (70%)	Basic Votes	Votes based on Contribution	Total
+3	**192.00**	**80.00**		**117.30**	**35.19**	**82.11**	**9.60**	**192.00**	**201.60**
China	68.40	28.50	0.50	34.20	10.26	23.94	3.20	68.40	71.60
Hong Kong (HK)	8.40	3.50	2.50	6.30	1.89	4.41	0.00	8.40	8.40
Japan	76.8	32.00	0.50	38.40	11.52	26.88	3.20	76.80	80.00
Korea	38.40	16.00	1.00	38.40	11.52	26.88	3.20	38.40	41.60
ASEAN	**48.00**	**20.00**		**126.20**	**37.86**	**88.34**	**32.00**	**48.00**	**80.00**
Indonesia	9.10	3.79	2.50	22.76	6.83	15.93	3.20	9.10	12.30
Thailand	9.10	3.79	2.50	22.76	6.83	15.93	3.20	9.10	12.30
Malaysia	9.10	3.79	2.50	22.76	6.83	15.93	3.20	9.10	12.30
Singapore	9.10	3.79	2.50	22.76	6.83	15.93	3.20	9.10	12.30
Philippines	9.10	3.79	2.50	22.76	6.83	15.93	3.20	9.10	12.30
Vietnam	2.00	0.83	5.00	10.00	3.00	7.00	3.20	2.00	5.20
Cambodia	0.24	0.10	5.00	1.20	0.36	0.84	3.20	0.24	3.44
Myanmar	0.12	0.05	5.00	0.60	0.18	0.42	3.20	0.12	3.32
Brunei	0.06	0.03	5.00	0.30	0.09	0.21	3.20	0.06	3.26
Laos	0.06	0.03	5.00	0.30	0.09	0.21	3.20	0.06	3.26
Total	**240.00**	**100.00**		**243.50**	**73.05**	**170.45**	**41.60**	**240.00**	**281.60**

Source: AFMGM+3 Joint Ministerial Statement, 03 May 2012.

Governance and Decision-Making

- Coordinating Countries: two coordinating countries – one from ASEAN members and other from China, Japan and Korea – are appointed each year to coordinate and provide secretariat services for the ASEAN+3 Finance Ministers and Central Bank Governors Process. They also coordinate the swap activation process when a request for a drawing is made.
- Ministerial Level Decision Making Body (MLDMB): composed by the ASEAN+3 Finance Ministers and Central Bank Governors is responsible for approving by consensus fundamental issues such as the total size of the CMIM, contribution of each CMIM's party, incorporation of new members, etc.

- Executive Level Decision Making Body (ELDMB): composed by ASEAN+3 deputy-level finance and central bank officials, it determines by 2/3 majority effective vote issues related to swap activation (approval, initial execution of drawing, renewal of drawing, events of default).

Financing Facilities

- CMIM Stability Facility (CMIM-SF): it can be accessed in the case of actual balance of payments and/or short-term liquidity difficulties. If a CMIM-SF arrangement is linked to an IMF program, each drawing must mature one year after the date of drawing and can be renewed multiple times when necessary. If it is not linked to any IMF program (30% of the maximum swap amount), the maturity is six months with three renewals, totaling up to 2 years in supporting period.
- CMIM Precautionary Line (CMIM-PL): is a simplified crisis prevention facility. The duration of access for IMF de-linked portion is 6 months with three renewals, totaling 2 years in arrangement period. In the case of IMF linked portion, it can be provided for more than three years with multiple renewal times when necessary. [17]

For both facilities, a market-interest rate equal to 1.5% LIBOR is applied, increasing by 0.5% each 180 days to a maximum of LIBOR + 3%. The total amount that can be drawn by each member country either for prevention or resolution purposes should be up to the maximum swap amount set aside for that country. Dual-drawing from both the CMIM-SF and the CMIM-PL is restricted. The CMIM-PL can be replaced with the CMIM-SF if any CMIM-PL recipient party is hit by crisis and needs additional support, depending on the decision made by the ELDMB. The CMIM’s party that requests the CMIM financing facilities needs to meet a set of precedent conditions before the ELDMB members take a vote on whether to approve such request, including completion of review of the economic and financial situation and no events of default, among others. Each CMIM’s party is requested to comply with covenants such as submission of the periodic economic surveillance report and participation in the ASEAN+3 Economic Review and Policy Dialogue (ERPD). For the CMIM-PL arrangements, in particular, the ELDMB also applies five qualification criteria – external position and market access, fiscal

[17] AFMGM+3 Joint Ministerial Statement, 03 May 2012 and 04 May 2018.

policy, monetary policy, financial sector soundness and supervision and data adequacy[18] – as *ex ante* qualifications and analyses by the ADB, the IMF and the ASEAN+3 Macroeconomic Research Office as the basis for decision (AFMGM+3, 2012).

Surveillance

Surveillance mechanisms under the ASEAN+3 institutional framework emerged firstly in 2002 with the establishment of the ERPD through which senior finance and central bank officials meet twice a year to discuss regional economic and policy issues. At the ERPD's meetings, each country presents a national report of its economic performance, and national authorities have the opportunity to debate policy recommendations and regional measures to reduce potential financial risks and enable swift remedial policy actions. This dialogue forum was created to strengthen policy coordination among ASEAN+3 countries through the assessment of members' macroeconomic conditions and financial soundness and the monitoring of regional capital flows and early detection of irregularities. The ERPD became part of the CMI's institutional structure as its surveillance mechanism in 2005 (Hill & Menon, 2012; Kawai & Houser, 2007). However, the ERPD was not the most credible and effective tool to monitor the economic and financial situation of member countries due to the lack of transparency in exchange of information, trust and truth in peer review process and the elaboration of biased and non-standardized individual country's economic reports.

Studies prepared by the ASEAN+3 Research Group in 2004-2005 had already pointed out the need to establish an independent surveillance unit to support CMIM's operations and improve surveillance activities, but this unit was just created in April 2011 as the ASEAN+3 Macroeconomic Research Office (AMRO).[19] First established as a company in Singapore, states decided to transform AMRO into an international organization by signing the AMRO Agreement on 10 October 2014. On 9 February 2016, all countries concluded the internal ratification process, and AMRO became an international organization with full legal personality mandated to conduct macroeconomic surveillance, support the implementation of the CMIM

[18] The CMIM applies the same qualification criteria used by the IMF to assess the performance of countries which request loans from the Flexible Credit Line (FCL). CMIM-PL and IMF FCL were both created for crisis prevention purposes.
[19] Summary Report of Studies on 'Economic Surveillance and Policy Dialogue in East Asia'- Institute for International Monetary Affairs, Japan, 10 March 2005. Available at https://asean.org/?static_post=external-relations-asean-3-asean3-research-group-studies. Accessed on 03 December 2018.

and provide technical assistance to members.[20] Regarding the surveillance work, AMRO elaborates countries' economic assessment reports as well as reports on overall regional economic and financial developments. To prepare these reports, countries provide relevant information required for surveillance, and AMRO's staff does annual visits to each country to discuss domestic economic and financial issues with finance and central bank officials.[21] In the support for CMIM's implementation, AMRO's efforts are centered on providing assistance to enhance institution's operational readiness. AMRO has developed the CMIM's Operational Guidelines, specifying activation procedures to prepare CMIM's activation if a crisis or difficulties in balance of payments of any member demand a prompt response. AMRO has regularly conducted test runs under various scenarios to update activation procedures since 2013, especially joint test runs with the IMF since 2016. The organization has also provided intellectual and administrative support to further strengthen the CMIM with the development of the CMIM Conditionality Framework[22] and the ERPD Matrix (qualification criteria for the CMIM-PL), and the realization of CMIM's Periodic Review to identify and address key issues to enhance the arrangement's effectiveness and to establish collaborative mechanisms with other international institutions.

1.3 Case Selection: Institutional Design

When states decide to create an international institution, they can choose whether it will be formal or informal. These two types of institution are different in terms of organizing principle, membership and degree of organizational structure. A formal intergovernmental organization (FIGO) is '*a formal entity formed by (i) an internationally recognized treaty (ii) with three or more states as members and (iii) a permanent secretariat or other significant institutionalization such as a headquarters and/or permanent staff'* (Pevehouse et al., 2004). An informal intergovernmental organization (IIGO) is defined as '*a shared expectation – rather than a binding agreement – about purpose among a group of states, participating in regularized meetings with no independent secretariat or other significant institutionalization such as headquarters and/or permanent staff*'. These definitions constitute ideal types or theoretical

[20] http://www.amro-asia.org/about-amro/#overview and http://www.amro-asia.org/about-amro/governance-structure/. Accessed on 18 July 2018.
[21] AMRO's Agreement available at http://www.amro-asia.org/amro-agreement/. Accessed on 18 July 2018.
[22] To enhance CMIM's credibility and relevant role in the GFSN, it is crucial that the arrangement gradually increases the IMF de-linked portion of its funds through the adoption of its own conditionalities. Since 2015, AMRO has been carrying out studies on the increase of de-linked portion to 40% and on the elaboration of CMIM's own conditionalities.

constructions that provide important guidelines in terms of tangible variables that should be considered in an attempt of categorizing and comparing international institutions as I do below with RFAs. Of course, many informal organizations can be more institutionalized than a 'pure' IIGO and still not perfectly meet the criteria of a FIGO. States choose the format of institutions within a broad spectrum of institutional forms that varies in level of formality (Vabulas & Snidal, 2013). Grounded on rational choice tradition, the literature of rational design of institutions argues that differences in institutional design of international institutions are not random but explained by states' choice of particular institutional formats to achieve specific goals. Institutional design is a result of purposive and rational interactions among states to solve specific types of collective action problems (enforcement, distribution, number of actors and asymmetry, uncertainty about behavior, the state of the world and the others' preferences) and advance common interests (Goldstein et al., 2000; Abbot & Snidal, 2000; Koremenos, Lipson & Snidal, 2001).

Elaborating on the characteristics that distinguish FIGOs and IIGOs detailed in Table 2, we have the following: members of an IIGO share expectations about a common goal – for instance, financial stability – that should be explicit, as in a diplomatic communiqué, but does not need to be created or codified by international law, as in an international legally binding agreement. As intergovernmental organizations, the key members of IIGOs are states (at ministerial or executive level) and membership requirements may be loose or expansive based on, for instance, geographic proximity or issue-area. Member states conduct regularized informal meetings, such as summit meetings attended by heads or other high-level executive officials, to discuss common concerns, share information, build consensus and agree on a collective action. An IIGO may not have a centralized secretariat, but if it relies on a minimum secretariat, it will not operate independently (Vabulas & Snidal, 2013).

Table 2: FIGOs x IIGOs

	Organizing Principle	Membership	Organizational Structure
FIGOs	Formalized expectations	Formal membership	Regular Meetings Independent Secretariat
IIGOs	Explicitly shared expectations	Explicit association	Regular Meetings No Independent Secretariat

Source: Vabulas & Snidal, 2013.

Based on the defining characteristics of FIGOs and IIGOs, Table 3 lays out the institutional variation in the level of formality of the emerging markets-led RFAs that operate in the GFSN. The European RFAs – European Union Balance of Payments Facility and European Stability Mechanism – were excluded because they are embedded in the special case of EU institutional framework. Importantly, among the institutional characteristics, the presence of a permanent and independent secretariat is the most important attribute to distinguish formal and informal institutions. The establishment of an international bureaucracy indicates that states agree on delegating authority to an organization that may interfere in their sovereignty (Vabulas & Snidal, 2013). In case of RFAs, to determine their level of formality, it is also important to look to the nature of the RFA, i.e. how countries decide to pool and manage their resources indicates to what extent they are willing to delegate authority and limit their sovereignty. RFAs may take two different formats: regional reserve pooling or regional swap arrangement. Regional reserve pooling is a collective commitment by which member countries agree on pooling their international reserves in benefit of countries facing short-term liquidity needs. The arrangement is governed by a single contract that establishes the general conditions of access to financing (amount, maturity, commissions, interest rates, conditionalities) and the decision-making procedures. In this type of arrangement, the ownership of the joint reserve pool belongs to all members. The regional swap arrangement consists of a network of bilateral swaps among central banks in a region. Usually, swap agreements are temporary and reciprocal. A central bank sells a specific amount of its domestic currency to other central bank in exchange for foreign currency based on a predetermined exchange rate. At the maturity, the swap is reversed, and the central bank buys back the same amount of its domestic currency at the exchange rate agreed previously plus market interest rates. All the conditions of financing are negotiated bilaterally. Countries may also adopt a multilateral framework by establishing a single swap agreement. In this case, the amount available for each member depends on its financial contributions to the arrangement, and the international reserves are not pooled into a fund but remain under the control and management of national monetary authorities (Mühlich, 2014).

Table 3: Level of Formality of RFAs

RFA	Year of establishment	Organizing Principle	Membership	Organizational Structure	RFA format / Resources
Arab Monetary Fund (AMF)	1976	Legal Treaty	Formal 22 members in the Middle East and North Africa	Permanent Secretariat Headquarters: Abu Dhabi – the United Arab Emirates	Pooled member resources US$ 4.8 billion (US$ 3.3 billion paid-in capital)
Fondo Latinoamericano de Reservas (FLAR)	1991 (first established in 1978 as Andean Reserve Fund)	Legal Treaty	Formal 8 members in Latin America	Permanent secretariat Headquarters: Bogotá - Colombia	Pooled member resources US$ 2.9 (paid-in capital)
Chiang Mai Initiative Multilateralization (CMIM)	2000	Legal Treaty	Formal 14 members of ASEAN+3	No permanent secretariat/staff No Headquarters	Multilateral swap agreement US$ 240 billion
Eurasian Fund for Stabilization and Development (EFSD)	2009	Legal Treaty	Formal 6 members in Eurasia	The Eurasian Development Bank is vested with the functions of the EFSD Resources' Manager No Headquarters	Pooled member resources US$ 8.5 billion (paid-in capital)
BRICS Contingent Reserve Arrangement (CRA)	2014	Legal Treaty	Formal 5 members of BRICS (Brazil, Russia, India, China, South Africa)	No permanent secretariat/staff No Headquarters	Multilateral swap agreement US$ 100 billion

Source: IMF, 2017 and author's elaboration

If we compare the RFAs, we observe that they do not differ in terms of organizing principle and membership. All of them were established by legal treaties and are composed by three or more member states according to formal membership requirements. Their level of formality varies in organizational structure and RFA format. The CMIM and the BRICS CRA are more informal institutions in the sense that they do not have permanent secretariats and headquarters and they are swap arrangements. National governments just have agreed on the commitment to provide funds to other members facing short-term external liquidity needs. The agreement does not fix the obligation of transferring national resources to a regional fund/authority. State sovereignty is preserved by the maintenance of international reserves under the management of national monetary authorities. The other RFAs are regional reserve pooling. Member states make their financial contributions as paid-in capital, i.e. the funds are transferred from domestic institutions to the regional organizations. Moreover, they exhibit some degree of authority delegation through the presence of permanent staff or secretariat responsible for managing the resources, supervising regional economies, monitoring loan use and collecting and providing information about the members.

This comparative analysis of RFAs shows that the CMIM can be interpreted as an 'empirically' deviant case since it does not present the empirical patterns of institutional formality observed in other RFAs. The case selection follows a distribution-based selection in which '*cases are chosen with respect to their location in a distribution of cases spanned by the cause or causes and/or the outcome of theoretical interest*' (Rohlfing, 2012). The CMIM is similar to other RFAs in causes but not in the outcome of theoretical interest – the level of institutional formality. In terms of causes, the creation of the CMIM and other RFAs was a result of both the discontent of emerging and developing countries with global financial governance, especially with the IMF, and the need of creation of additional mechanisms to protect them against the volatility of capital flows (Fritz & Mühlich, 2015; Hurrel, 2007; Katzenstein, 2005; Kilby, 2006; Krampf & Fritz, 2015; Krapohl, 2015). Although the CRA can also be considered as an 'empirically' deviant case because it exhibits the institutional characteristics that justify the low level of CMIM's formality – multilateral swap agreement and no permanent staff/secretariat – the case study focuses on the CMIM. As will be shown in chapter 3 and in a following section of this chapter, the CRA's institutional design can be considered as a spillover or a 'copy' of the CMIM on the basis of China's experience in East Asian financial cooperation.

1.4 Research Design

The question of '*how and why international institutions are designed as they are*' has already been asked by many international relations scholars. Some of them have conducted theoretical analyses proposing generalizations about the conditions that explain why states choose specific institutional characteristics (membership, scope, centralization, control and flexibility); others have done empirical studies applying the theoretical propositions to different cases of international institutions in different areas of international relations – security, trade, environment, etc (Goldstein et al., 2000; Abbot & Snidal, 2000; Koremenos, Lipson & Snidal, 2001; Epstein & O'Halloran, 2008; Vaubel, 2006; Bradley & Kelly, 2008; Vabulas & Snidal, 2013). I seek to contribute to the literature on regional financial cooperation and to the studies on RFAs by asking the same question to understand the institutional design of the CMIM.

Beyond the importance of the CMIM in reducing ASEAN+3 countries' vulnerabilities to international financial flows and enhancing regional financial stability, this research intends to analyze the regional arrangement not in terms of its economic and financial effectiveness[23] but in terms of its institutional design. Regional cooperation and institution-building can be understood as political processes that ultimately involve decisions of foreign policy defined as '*the strategy or approach chosen by national government to achieve its goals in its relations with external entities*' (Smith, Hadfield & Dunne, 2008). By this definition, foreign policy comprises actions in both internal and international environments. States' preferences or national governments' choices are determined in the internal environment, while external relations or international politics constrain states' behavior (Neack, 2003). Given this double-sided nature, political phenomena that belong to foreign policy sphere are better understood if we adopt an analytical framework that considers states' actions/preferences and the context where they act. States are oriented towards achieving goals, and their actions become only comprehensible taking into account the surrounding context, here, the international system (Hill, 2003; Hay, 2002). I contend that the institution-building of the CMIM is a political process that belongs to the domain of foreign policy decisions. As such, it calls for an analytical approach that examines how systemic conditions and preferences of domestic agents account for the CMIM's institutional design. Therefore, to explain the outcomes of the CMIM's

[23] For studies on economic and financial effectiveness of RFAs, please see Fritz & Mühlich, 2015; Bénassy-Quéré & Coeuré, 2005; Cohen, 2004; Fritz & Metzger, 2006; Fritz & Mühlich, 2010; Henning, 2011; Ocampo, 2006; Fritz & Krampf, 2015; Mühlich, 2014.

institutional design, i.e. why the arrangement was shaped in a determined way (informal), I apply systemic explanations (top-down) proposed by the literature on Rational Design of Institutions (RDI) (Koremenos, Snidal & Lipson, 2001; Abbot & Snidal, 2000; Vabulas & Snidal, 2013) and an internal approach (bottom-up) focused on bureaucratic politics (Allison, 1971; Hollis & Smith, 1991).

On domestic side, I argue that the Chinese Central Bank and the Japanese Ministry of Finance have played a central role in the policymaking of the CMIM due to their domestic power (*de jure* and *de facto*) and preferences. The analysis focuses on China and Japan because, as the main creditor countries, they are crucial actors in shaping the institutional design. RFAs are ultimately international public goods since only few states – the creditor countries – can support the implementation costs associated with them. Japan and China – the most powerful and richest countries in East Asia – have borne most of the costs and risks of the CMIM, since they made the largest financial contributions and, in return, they have ensured the prerogative of shaping its institutional design to protect their interests and reduce their exposure to risks (Grimes, 2015; Kindleberger, 1981; Olson, 1971). Yet, the CMIM's institutional design is not only an output of domestic agents' preferences but it is also an outcome of systemic conditions inherent to any process of cooperation and institution-building. According to RDI framework, states choose the institutional attributes of international institutions – membership, scope, centralization, control and flexibility – as a response to common challenges imposed by international politics and cooperation – uncertainty, distribution and enforcement problems, sovereignty, bargaining, contracting and operating costs. In dealing with these cooperation challenges or structural conditions, states seek to provide international institutions with an institutional framework that ensures they will operate in line with members' expectations. Thus, the research intends to demonstrate that both domestic and systemic conditions explain the actual institutional design of the CMIM.

In addition, this study is an effort of establishing a congruence between Western international relations theories and particularities of Asian region. Most of the scholarship on economic regionalism and, in particular, on regional monetary and financial cooperation is in general profoundly rooted in Western history and intellectual tradition, drawing its theoretical assumptions basically from European experience. This literature, however, fails in explaining tendencies and puzzles of international relations from non-Western world because its concepts and analogies are exclusively supported by Western history and culture, ignoring the particularities of other regions. The study of Asian financial cooperation and institutionalization is valuable in theoretical terms since it provides a counterargument to the euro-Western centrism found in a wide body of comparative regionalism literature (Acharya, 2014). Following a path dependence analysis, I investigate how historical conditions of East Asian economic cooperation and institution-building help to explain the informal institutional design of the CMIM.

1.5 Methodology

According to Gerring (2004) '*a case study is best defined as an in-depth study of a single unit (a relatively bounded phenomenon) where the scholar's aim is to elucidate features of a larger class of similar phenomena.*' The case study proposed here comprises an in-depth analysis of the CMIM with the aim of shedding light to the understanding of creation and operation of other RFAs as well as their role in the GFSN. Aware of the fact that single-unit research design often falls short in the degree to which causal relationships evidenced by that single unit may be assumed to be true for a larger set of other units, the objective is not to overgeneralize the findings to diverse populations, i.e. to all possible institutions and mechanisms that may emerge from regional monetary and financial cooperation.[24] I seek only contingent generalizations applied to the subclass of cases similar to the one under study – regional financing arrangements (Gerring, 2004; Bennett, 2005).

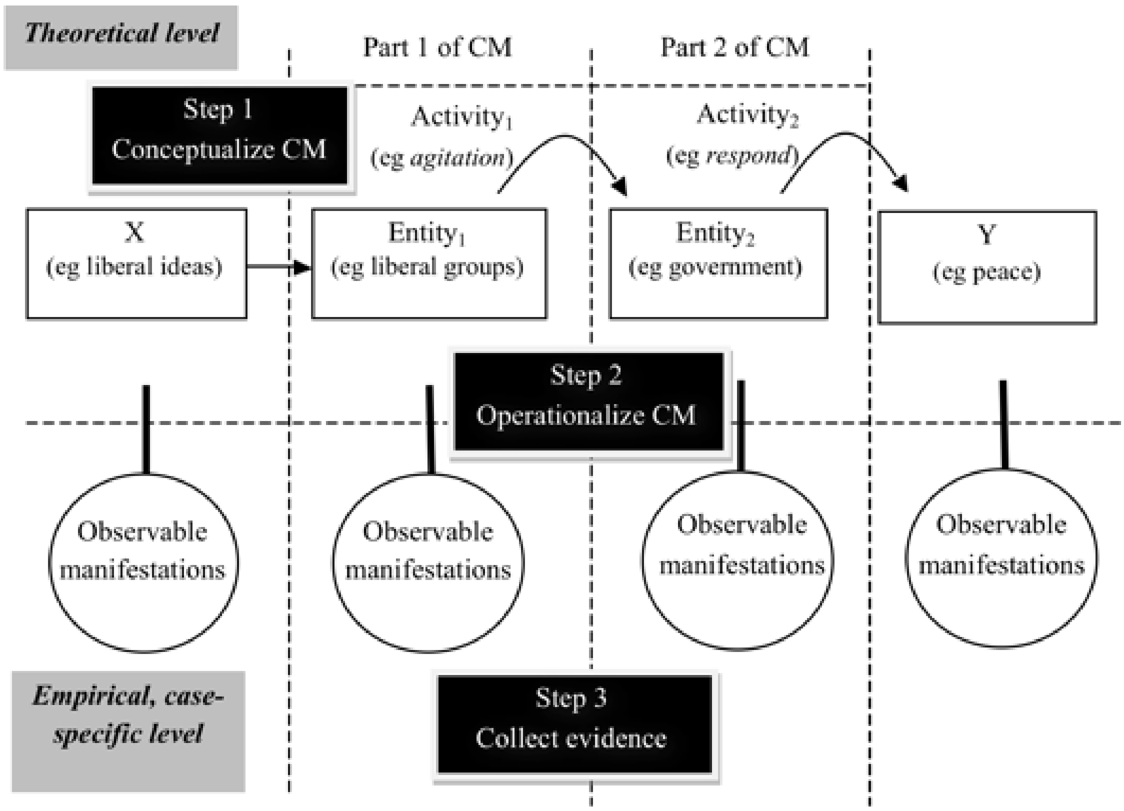
Case studies are more likely to focus on causal mechanisms rather than causal effects. They are useful in elucidating casual mechanisms in detail through evidences that provide clues into what connects the independent variable to a particular outcome or dependent variable (Gerring, 2004). Case study researchers are more interested in finding the conditions under which specified outcomes occur, and the mechanisms through which they occur – not whether or when variables cause an outcome, but how those variables cause an outcome (Bennett, 2005; Barnes & Weller, 2011). In such sense, based on a case selection on the dependent variable – institutional design – the analysis of the CMIM has the purpose of identifying the potential

[24] Regional monetary and financial cooperation is broadly perceived as a non-predetermined and non-linear process in which different institutional forms of state policy coordination are taken to prevent or to adjust national economies to economic and monetary shocks (Schelkle, 2001). These institutional forms can be grouped in five types of arrangements: regional liquidity sharing mechanisms (to help countries with short-term difficulties in balance of payments); regional system of payments (to reduce the transaction costs associated with intra-regional trade); regional exchange rate arrangements (to coordinate national exchange rate policies); initiatives to develop regional financial market (to promote the use of local currencies in long-term financing) and monetary union (Fritz & Mühlich, 2015).

casual paths and variables leading to the outcome of interest – the informal design. (Bennett, 2005).

As the objective of case study is to examine the operation of casual mechanisms by constructing a complete and uninterrupted chain of evidences, process tracing method is particularly well suited for this type of analysis. Process tracing consists of '*the use of evidence from within a case to make inferences about casual explanations of that case. It refers to the examination of intermediate steps in a process to make inferences about hypotheses on how that process took place and whether and how it generated the outcome of interest'* (Bennett & Checkel, 2014). In order to better capture casual mechanisms at work, it is needed to collect empirical manifestations of each of the parts of the mechanism that links independent variable to dependent variable. The parts are defined as factors that are individually necessary parts of mechanism, composed of entities that engage in activities (Figure 2) (Beach & Pedersen, 2013). Because the purposes of process tracing include either developing or testing hypotheses about casual mechanisms that might casually explain the case, case studies employing process tracing can make an important contribution to theory-building in political science. I intent to contribute to the scholarship through a theory-confirming case study that consists of examining a single case within the framework of established generalizations (Lijphart 1971). In this sense, I contend that the CMIM constitutes a typical case of informal institution that can be explained by the existing model of analysis proposed by the RDI framework. The process tracing will be developed in such way to gather evidences from the case and validate the stipulated or hypothesized causal mechanisms proposed by the RDI studies (Seawright & Gerring, 2008). Therefore, the theory testing will be proceeded more deductively, looking to the observable implications of hypothesized causal mechanisms within the case to test whether the theory on theses mechanisms explains the case (Bennett & Checkel, 2014).

Figure 2: Process Tracing Theory-Testing

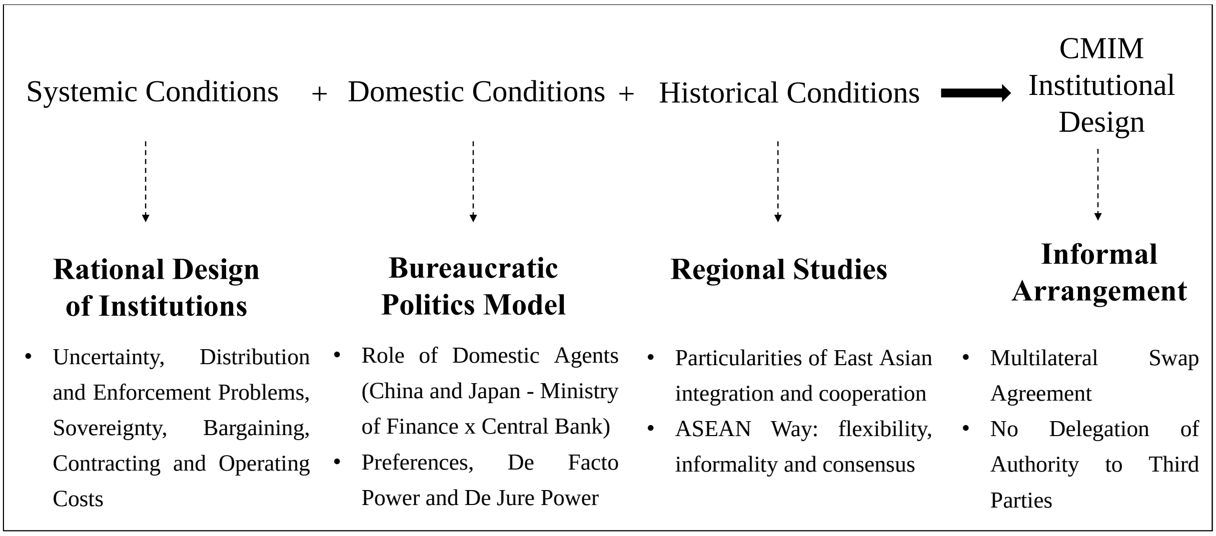


Source: Beach & Brun Pedersen, 2013 (p.15).
Entities = object engaging in activities (noun)
Activities = producers of change or what transmits causal forces through causal mechanism (verbs)

A robust application of process tracing involves not only to uncover the causal mechanisms of the case but also to consider a wide range of alternative explanations. Failing to consider a potentially viable explanation that readily occurs to the readers or experts of a case study can make the process tracing unconvincing (Bennett & Checkel, 2014). For this reason, I assess the process tracing evidences of the CMIM on other explanations out of the RDI framework. The informal institutional design of the CMIM can be explained by other variables not just the systemic variables proposed by the RDI literature. It is also important to take into account domestic conditions and path dependency to understand consistently the institutional design of the regional arrangement. Reflecting on different explanations allows to address equifinality, i.e. the possibility of multiple pathways leading to the same outcome. One of the advantages of case studies is indeed their ability to accommodate complex causal relations such as equifinality and complex interactions effects. Often, when a phenomenon is examined in more detail, it proves to exhibit several explanatory paths, combinations, or sequences leading to the same outcome, and these paths may or may not have one or more variables in common (Bennett, 2005).

Figure 3 details the overall research design and the proposal of the process tracing for the case of the CMIM. As mentioned above, I will investigate how three different types of conditions – systemic, domestic and historical – form and operate the casual mechanisms that explain the CMIM's informal institutional design.

Figure 3: Process Tracing – CMIM Case Study



1.6 Filling the gap in existing literature

Studies on the CMIM have begun to be developed around the debate on regional monetary and financial cooperation and the future of East Asian regionalism that has emerged after the 1997 Asian financial crisis. We can divide these studies into three groups or explanations: regionalists, functionalists and realists (Kawai, 2010; Grimes, 2014; Kring & Grimes, 2019).

Part of regionalist studies has focused on analyzing the CMIM as a response to reduce the interference of the IMF and the US in East Asian issues, which was intensified alongside the disbursement of IMF's funds and application of IMF's programs to countries that had suffered more with the negative impacts of the crisis. Richard Higgott (1998) called this strong sentiment against the IMF and the US and the strengthening of regional financial cooperation as 'politics of resentment'. Similarly, scholars following a constructivist approach have contended that the crisis prompted the rising of an Asian identity opposite to the West order and hegemony (Lee, 2006, 2008). There was a clear consensus in the region that the IMF had not diagnosed properly the crisis and had imposed a range of solutions that only contributed to exacerbate the difficulties faced by hit countries (cut of public expenditures, raise of interest rates and adoption of flexible exchange rate regime) (Dieter, 2000). Stubbs (2002) and Kawai (2007) points out the rise of ASEAN+3 group as an emerging East Asian regionalism that turned the attention from trade to financial and monetary issues. After the crisis, regional economies understood that they should take coordinated measures to create self-help regional mechanisms to reduce their vulnerability to international capital flows (Henning, 2005; Park, 2006). The centerpiece of this new financial regionalism was the CMI, the first mover of institutionalization and multilateralization in Asian region (Grimes, 2015). Following a comparative perspective, other studies have analyzed the CMIM in relation to a wider context of regional monetary and financial cooperation. Krapohl (2015) investigates the variety of financial integration in different regions by examining how the interests and power of regional leaders have promoted the establishment of regional liquidity arrangements. He argues that the CMIM and liquidity arrangements of the eurozone were created because ASEAN+3 and European leaders have been more institutionally and economically involved in their regions than the leaders from Mercosur. In the particular case of the CMIM, China and Japan suffered with the negative externalities of the Asian crisis and thereafter became interested in developing a regional instrument to stabilize East Asia. A range of studies has built up analyses to explain the increasing in establishment of regional liquidity arrangements by emerging countries. According to them, the CMIM and other RFAs were constituted to help these countries to reduce macroeconomic volatility and protect their fragile financial markets from external shocks. RFAs have also represented a discontent with the global monetary and financial governance, especially in terms of disbursement policies, criteria of conditionalities and governance structure (Ocampo, 2006; Mühlich, 2014; Fritz & Mühlich, 2014, 2015). Finally, another group of scholars has examined the East Asian monetary and financial cooperation in comparison with the European experience. Considering the European cooperation as a successful process, these scholars have investigated how ASEAN+3 countries could work to delineate the conditions for a flourishing monetary and financial integration and to improve the CMIM's institutional capacities, emulating the European countries in building solid and formal institutions (Hamada, Reszat & Volz, 2009; Park & Wyplosz, 2010).

Functionalist explanations have emphasized the developments of CMIM's institutional aspects and have identified a number of institutional capacities that should be advanced for the arrangement to operate effectively. Most of these studies deal with the following common questions: is the CMIM evolving to act as a complement to the IMF or to replace it?; will the CMIM be capable of developing institutional abilities that allow it to become a stand-alone regional liquidity mechanism, operating independently of the IMF? Initial studies on the CMI carried out different views of the arrangement. Some critics argued that the bilateral swaps under the CMI might be ineffective and disastrous for the international financial system because they could increase risks of moral hazard behavior among ASEAN+3 governments. In contrast, other scholars pointed out the significance of the agreements as the basis for strengthening regional cooperation and integration. The establishment of the CMI showed the initial efforts of ASEAN+3 countries in negotiating and mobilizing their financial resources to create a safety net against future crises (Henning, 2002). The functionalist literature has grown indeed after the multilateralization of the CMIM. The replacement of the network of bilateral swaps by a single multilateral contract together with other important changes – increase of the total size, implementation of a voting system and decision-making procedures, establishment of a surveillance unit and creation of different financing facilities – were considered remarkable steps towards institutionalization of the arrangement. Pitakdumrongkit (2015) proposes an analysis of the factors that have shaped the details of the agreement by scrutinizing the role of co-chairs – countries that chair ASEAN+3 meetings each year – in influencing negotiations and shaping final decisions on financial contributions and vote shares. Most of studies, however, have emphasized institutional weaknesses of the regional initiative that should be addressed by members if they sought to establish an institution fully autonomous from the IMF – a sort of revival of the Asian Monetary Fund idea (Grimes, 2011). For ASEAN+3 governments, the IMF link have always been associated with the stigma attached to the Fund that arose after the Asian financial crisis. Many scholars have argued that this stigma shared among CMIM's members explains why the regional mechanism has never been activated. They agree that credibility, effectiveness and attractiveness of the CMIM within ASEAN+3 region would only be enhanced upon the cutting or termination of IMF link and suggest that institutional capacities and expertise of AMRO should be improved in a way to endow the surveillance unit with independence and ability to conduct credible economic and financial analysis to support swap activation decisions and to develop the CMIM's own conditionalities for loans. Others have also pointed out the need of establishment of a permanent secretariat responsible for elaborating operational guidelines for swap activation and coordinating the whole financing process – from request to disbursement. Some analysts advocate for increasing the total size of the arrangement and expanding the membership as a manner to enhance the power of the regional institution to assist countries facing liquidity difficulties (McKay et al., 2011; Sussangkarn, 2010; Ciorciari, 2011; Grimes, 2011; Hill & Menon, 2012; Siregar & Chabchitrchaidol, 2013; Azis, 2013; Kawai, 2015). Additionally, in a recent study, Grabel (2019) follows Hirschman's argument (1967) to analyze the CMIM's institutional developments. Hirschman contends that systemic changes pose concrete demands to policymakers who are compelled to engage in problem solving through ad hoc, disconnected and experimental institutional innovations. According to Grabel, the Asian financial crisis offered a greater opportunity for East Asian countries for institutional experimentation in comparison with the limited space available under the era of dominance of Bretton Woods institutions. The establishment and further advances of the CMIM are understood as an architectural innovation among other institutions created by emerging economies. Specially, decisions made in 2009 and 2010 to mutilateralize the initiative have revealed dynamism and commitment of governments to experimentation, desire to undertake institutional creation and cooperation through learning by doing, trust and bargaining.

Realist analyses of the CMIM focus on power politics, mainly, disputes among the US, the IMF and East Asian countries and rivalries between the two regional leaders – China and Japan. Stubbs (2002) has reinforced the damaging role that the US and the IMF played for East Asian regionalism due to their worries of losing their sphere of influence in the region. The most well-known example of this behavior was the strong opposition of both actors to Japan's proposal to create the Asian Monetary Fund. Despite these initial disputes, many observers have remarked that the CMI has followed a trajectory of development without much resistance of Western players, because ASEAN+3 countries have reaffirmed since the beginning that the regional initiative would complement the IMF, establishing a formal link with the Fund. Other realist scholars argue that a key obstacle for regional monetary and financial cooperation and enhancement of the CMIM is the rivalry between China and Japan. The conflict of interests and, especially the competition of both countries for regional leadership, might create an environment of lack of confidence and uncertainty, inhibiting future progresses on cooperation and institutionalization (Stubbs, 2002; Dieter, 2008; Grimes, 2006, 2011; Henning, 2009; Hamanaka, 2009; Kawai, 2010). In contrast, others have demonstrated that regional financial and monetary cooperation is one of the few areas in which China and Japan have been seeking to collaborate since they share common interests such as the economic stabilization of their regional partners. This consensus enabled cooperation between them that culminated in the creation of the CMI – a regional institution with an Asian identity that excludes the US and the IMF (Chey, 2009; Katada & Sohn, 2014). A number of studies has examined the individual role played by China and Japan in financial and monetary regionalism. Since the Asian financial crisis, Japan became more active and interested in promoting regional cooperation, adopting a positive involvement in the region through provision of liquidity for crisis-hit countries. In line with the sentiment shared within East Asian region, Japan showed its dissatisfaction with the IMF's policies and the West influence in the region when it proposed the Asian Monetary Fund and made all efforts to ensure the establishment and implementation of the CMI. For some scholars, regional monetary and financial cooperation would be less viable and significant, even completely impossible, without Japanese actions (Hayashi, 2006; Chey, 2009). Literature on Chinese side has underlined the change of China's behavior towards financial and monetary regionalism that has contributed to the success of regional initiatives including the CMIM. The Asian financial crisis is considered as a critical juncture for Chinese foreign policy, contributing to put regional policies at first in government strategic agenda (Breslin, 2009; Ye, 2012; Goh, 2013; Jiang, 2010, 2013). Shifting from a passive and conflictual behavior to a more pro-active stance, China decided to support regional cooperation to promote itself as a responsible great power to neighbors as well as to assume more leadership in regional policymaking. Regarding the CMIM, Chinese ideas found voice within ASEAN+3 group in the context of multilateralization, when China's proposal of establishing a multilateral swap agreement was accepted (Amyx, 2005; Chey, 2009; Katada & Sohn, 2014; Huotari, 2016). Other studies have also analyzed how recent facts related to the divided leadership of China and Japan have impacted the evolution of Asian regional financial architecture. Scholars argue that the bilateral swap lines established by China and Japan with several ASEAN+3 countries outside of the CMIM framework reveal a new type of Sino-Japanese competition that may threaten political relevance of the CMIM, despite its remarkable institutional developments, and inhibit the emergence of a coherent financial regionalism in East Asia (Grimes, 2015; Kawai, 2015; Katada, 2017).

As we can observe from the literature review, most of studies on the CMIM have addressed issues related to institutional strengths and weaknesses, relationship to the IMF and the US, the role of the regional arrangement in the broader context of East Asian regionalism and the impact of Sino-Japanese rivalry on developments of the CMIM. Although these issues are indeed important, I propose a different approach, an inward approach that intends to understand the CMIM's institutionalization process *per se*. I seek to examine how systemic, domestic and regional conditions explain the actual CMIM's institutional design. In other words, why the arrangement was shaped in a direction that locates it, in the spectrum of institutions, within the group of informal institutions. To date, only a recent study published by Kring and Grimes (2019) applies the theoretical lens of RDI literature to analyze the CMIM. Yet, authors address the same question of previous functionalist studies and investigate the impact of Asian arrangement in relation to the current functions of the IMF. Based on RDI framework, they examine how CMIM's institutional attributes – membership, scope, centralization, control and flexibility – affect its interactions with the IMF, whether strengthening or destabilizing them. Differently, my study employs the insights of the RDI to understand the CMIM's institutional design *per se*; i.e. how systemic conditions proposed by RDI scholars – uncertainty, distribution and enforcement problems, sovereignty, bargaining, contracting and operating costs – explain the CMIM's informal institutional design. The same *modus operandi* applies to the domestic approach. Some scholars focused on investigating how domestic issues impacted China's and Japan's actions towards the CMIM have followed a framework similar to realist studies. They have examined the changes in countries' foreign policies and engagement in regional financial cooperation and CMIM's issue as a result of domestic politics in which domestic preferences related to increasing countries' influence and leadership in the region have prevailed and affected foreign policy decisions regarding East Asian regionalism (Hayashi, 2006; Jiang, 2010, 2013). Adopting a completely different approach of domestic politics, I aim to investigate how domestic political dynamics as proposed by the bureaucratic politics model explain domestic agents' actions regarding solely the CMIM's institutionalization process, not taking into account China's and Japan's power ambitious in the region. Thus, I examine the role of the ministries of finance and the central banks from China and Japan in influencing states' preferences and decisions with respect to the CMIM's institutional design.

To sum, I argue that my study contributes to the CMIM literature because is not an analysis of the CMIM in relation to some other object such as the IMF, the East Asian regionalism, the US or the rivalry of China and Japan. I do not intend to assess the institutionalization process to verify if the CMIM can evolve to operate independently from the IMF; neither evaluate how the institutionalization has contributed to East Asian regionalism; nor analyze how Sino-Japanese relations and the US have influenced the CMIM's institution-building. Rather, my objective is to conduct a serious examination of the CMIM's institutionalization to determine which and how conditions have operated through this process.

1.7 The CMIM and its implications for the international financial system: why it is important to study the CMIM's institutional design

Against the skeptics of Asian regionalism prevalent in the 1990s (Stubbs, 1995; Katzenstein, 1997; Haggard, 1997), since the beginning of the century, East Asian region has made significant progresses towards deepening institution-building and regional cooperation. This development is surprising for a region well-known for its relative absence of formal multilateral cooperation. Whereas ten years ago most of the debate on Asian regionalism revolved around the rapid growing of intraregional trade and investments, these areas have not prompted multilateral institutionalization. In contrast, it was in monetary and financial issues that East Asian countries have tangibly advanced in terms of institutionalization and the extent of multilateralization (Stubbs, 2002; Dieter & Higgott, 2003; Bisley, 2007; Frost, 2008; ADB, 2008; Chey, 2009; Green & Gill, 2009; Lee, 2009; Ravenhill, 2010). The CMIM was the first mover in the world of large-scale regional funds. It stands out among the emerging markets-led RFAs with the largest size of US$ 240 billion. Table 4 compares the amount of crisis financing available for ASEAN+3 members through the CMIM (100% of swap amount and IMF-delinked portion – 30%) and the IMF. I selected three IMF-credit lines that are similar to CMIM facilities: the Stand-By Arrangement (SBA), which is a facility designated to countries with short-term balance of payments difficulties, equivalent to CMIM-SF; the Precautionary and Liquidity Line (PLL), which is a crisis prevention mechanism similar to the CMIM-PL and; the Rapid Financing Instrument (RFI), which is an immediate provision of funds with softer conditionalities to be activated in emergency situations as the case of CMIM IMF-delinked portion (Pelisson, 2018). If we compare the amount of crisis financing offered by the IMF and the CMIM, we observe that, within the group of CMIM's potential borrowers – ASEAN countries – the size of lending volumes that can be provided by the IMF (SBA and PLL) and the CMIM (100%) are similar and, for some countries, CMIM's amounts are larger. In particular, for financing with softer conditionalities, most borrower countries can access larger volumes through the CMIM IMF-delinked arrangement than through the IMF RFI. These data reaffirm the relevant role that CMIM is playing in the region, displacing gradually the IMF from the position of the most important lender of last resort in the region.

Table 4: CMIM x IMF (US$ billion)

Countries	CMIM		IMF		
	IMF-De-linked Portion (30%)	**Maximum Swap Amount (100%)**	**Stand-By Arrangement (435%)**	**Precautionary and Liquidity Line (500%)**	**Rapid Financing Instrument (75%)**
China	10.2	34.2	183.9	211.4	31.7
Hong Kong (HK)	1.9	6.3	-	-	-
Japan	11.5	38.4	185.9	213.7	32.1
Korea	11.5	38.4	51.8	59.5	8.9
Indonesia	6.8	22.8	28.0	32.2	4.8
Thailand	6.8	22.8	19.4	22.3	3.3
Malaysia	6.8	22.8	21.9	25.2	3.8
Singapore	6.8	22.8	23.5	27.0	4.0
Philippines	6.8	22.8	12.3	14.2	2.1
Vietnam	3.0	10.0	7.0	8.0	1.2
Cambodia	0.4	1.2	1.1	1.2	0.2
Myanmar	0.2	0.6	3.1	3.6	0.5
Brunei	0.1	0.3	1.8	2.1	0.3
Laos	0.1	0.3	0.6	0.7	0.1
Total	**72.9**	**243.7**	**540.3**	**621.0**	**93.2**

Source: Pelisson, 2018. US$ 1 = SDR0.721147 on 25 October 2018. Percentages of IMF facilities correspond to the maximum or cumulative limit for access to funds.

The importance of the CMIM is not restricted to Asian regionalism. The arrangement is not only a relevant case because of its empirical deviance in terms of institutional design from other RFAs' cases, but because it carries important implications for the international financial architecture. The 1997 Asian financial crisis and the 2008 global financial crisis have provided room for institutional experimentation in comparison with the limited space available under the dominance era of Bretton Woods institutions. The CMIM is part of this evolving liquidity-support architecture. Although it has never been activated, the learning by doing, trust, bargaining, relationships and establishment of a network of officials that participate in the CMIM's meetings have yielded the conditions for institutional development in and outside East Asian region (Grabel, 2019). The study of CMIM's institutional design is important to understand a tendency that has been revealing in the international financial system: the presence of more informal liquidity support mechanisms that may lead to a de-institutionalization of the GFSN. The CMIM's informal swap design has spread and served as model to the development of two other liquidity mechanisms that arose after the 2008 global financial crisis: the bilateral swap agreements and the BRICS CRA. This issue is analyzed more deeply in chapter 3.

In the next chapters, I conduct a detailed analysis of how systemic, domestic and historical conditions have operated in the CMIM's institutionalization process. The objective is to identify the 'mechanismic' explanation that accounts for the CMIM's informal institutional design. The work proceeds as follows. In chapter 2, applying a theory-testing approach, I explore the theoretical propositions or hypothesized explanations suggested by the RDI literature to identify the systemic conditions and understand how they function to explain the CMIM's low level of formality. Next, in chapter 3, focusing on the main creditor countries – China and Japan, I draw on Bureaucratic Politics Model to demonstrate the role of domestic agents – Japanese Finance Ministry and Chinese Central Bank – in shaping the CMIM's institutional design. Based on an investigation of these agents' sources of power and preferences, I delineate the channels by which they have influenced the CMIM's policymaking and decisions. I then turn to the historical conditions, pointing out how Asian previous experience with regional economic cooperation and institutionalization has also affected the actual institutional features of the CMIM. Finally, I close by summarizing the main arguments of each chapter through an analysis of how each set of conditions can be combined to understand the casual mechanisms that have worked in the CMIM's institutionalization process with the purpose of proposing an interrelated explanation for the CMIM's institutional design. I also consider the implications of the CMIM for the GFSN and for the understanding of RFAs in general.

Chapter 2: Systemic Conditions and the RDI Framework

Established international relations theories such as realism and neoliberal institutionalism offer different explanations for why international institutions are created but do not account for why states choose specific institutional features – membership, coverage of issues, monitoring and enforcement, mechanisms for dispute resolution, compliance, decision-making procedures, delegation of authority – that constitute their institutional design. For realists, international institutions are embedded in the power and conflict dynamics of international politics, functioning as convenient instruments of states that desire to maximize their relative power and further their interests (Waltz, 1979; Gilpin, 1981). In contrast, for neoliberal institutionalists, within international politics there is scope not only for conflict but also for cooperation, and institutions may help egoistic states to cooperate and advance their common interests. States decide to create institutions to cope with collective action problems such as uncertainty and transactions costs.[25] International institutions allow states to reach cooperative solutions because they improve contracting environment by providing information, creating procedures and rules, establishing reputation and increasing interactions, which help states to deal with uncertainty and pursue their interests in an ordered manner even in the context of anarchy and uncertainty (Keohane & Nye, 1977; Keohane, 1984; 1989). These conditions suggested by realists and neoliberal institutionalists help to understand the formation of international institutions but do not necessarily explain their designs (Solingen, 2008). The RDI literature has emerged to fill this gap and investigate the differences in institutional design of international institutions.

2.1 Rational Design of International Institutions

Koremenos, Snidal and Lipson (KSL) (2001) have evolved the study of international institutions by developing an analytical framework to understand the variety in their institutional designs. They identify five dimensions (or dependent variables) in which

[25] According to Olson (1971), individuals are self-interested and do not act in favor of common interests to ensure the provision of public goods. Once public goods are not exclusive, the optimal strategy for rational actor is to adopt a free-riding strategy, that is, to let other actor provides the goods and reaps the benefits. Yet, if this strategy is chosen by all individuals, public goods are not provided, creating a problem of collective action. Olson points out that collective action is hard, however, the incentives to actors organize groups appear when gains exceed costs of participation.

institutions may vary: membership rules, scope of issues covered, centralization of tasks, rules for controlling the institution and flexibility of arrangements. Grounded on rational choice tradition, they argue that differences in institutional design of international institutions are not random but explained by states' choice of particular institutional formats to achieve their objectives. In such sense, institutional design is a result of purposive and rational interactions among states to solve specific types of collective action problems and advance common interests. By isolating a set of independent variables – distribution problems, enforcement problems, number of actors, uncertainty about behavior, the state of the world and others' preferences – that determines the choice of particular institutional features, they developed a series of conjectures that connect independent and dependent variables. Scholars' primary purpose was to generate testable propositions to guide empirical analysis of international institutions as the research proposed here. Each conjecture addresses the expected effect of a change in a specific independent variable on one of dependent variables.

From the five institutional dimensions, this study focuses on two to analyze the CMIM: centralization and flexibility. These are the institutional features related to the informal character of the CMIM that distinguishes it from other RFAs. The dimension of centralization touches directly on national sovereignty. The establishment of a centralized international authority would help cooperation through dissemination of information, reduction of bargaining and transaction costs (centralized executive body for decisions) and enhancement of enforcement. Yet, states aim to guard their control over foreign policy, are suspicious of encroachments by other states and strongly resist any delegation of authority to an independent third body. Flexibility involves how institutional rules and procedures accommodate new circumstances. There are two types of flexibility: adaptative and transformative. A good example of adaptative flexibility is escape clauses that allow members to respond to unanticipated shocks while preserving existing institutional arrangements. Transformative flexibility usually comprises clauses that modify institutions in more profoundly ways by means of renegotiations and new ratification processes for the institution to survive. The conjectures formulated for each of these institutional dimensions are the following:

Centralization:

1- Centralization increases with uncertainty about behavior and the state of the world: States are not certain about the actions taken by others neither about the consequences of their own actions, the actions of other states or the developments of the international system. In this sense, states may benefit from joining efforts to gather and pool information as an effective alternative to reduce uncertainty and strengthen cooperation. When information is centralized and available to all members, it helps to create reputational ties that facilitate transactions by letting states know how their partners have behaved and providing valuable interpretations for future behavior.

2- Centralization increases with number: The number of actors involves the set of interested actors and their relative power in and importance to the issue. Interested actors are not always the same to those who become members of the final institution. When many actors are involved, centralization helps to reduce transaction and bargaining costs by replacing bilateral negotiations for a centralized organizational structure that reduces the costs of decision-making.

3- Centralization increases with the severity of the enforcement problem: When the payoff from unilateral defection is significantly greater than from mutual cooperation, states may find optimal to delegate authority to a third party to enforce rules of mutually beneficial agreements and increase the expected costs of opportunistic actions.

Flexibility:

1- Flexibility increases with uncertainty about the state of the world: States design arrangements that are less formalized than full legalized institutions when uncertainty is high and anticipated benefits are low. In this situation, they avoid committing themselves to rigid institutions and prefer agreements that can be easily adjusted or changed in case of adverse shocks.

2- Flexibility increases with the severity of the distribution problem: The distribution problem appears when more than one cooperative arrangement is possible, and it is related to how each actor compares its preferred alternative to others' preferred alternatives. Institutions with more flexible design reduce bargaining costs both during negotiations for implementation – uncertainty about the future makes states bargain harder as results affect them in long-term – and in renegotiations of treaty terms. It is easier to negotiate agreements that establish general and non-binding commitments with limited delegation of authority.

3- Flexibility decreases with number: Where flexibility takes the form of periodic renegotiation of the agreement, large number of members will increase the associated bargaining costs.

With the development of neoliberal institutionalism, the literature on international relations has mostly focused on thinking international organizations as formal entities. Abbott and Snidal (2000), otherwise, have inaugurated a new series of studies focused on informal arrangements. They have provided explanations about why informal institutions are occasionally used or chosen by states through the concepts of hard and soft law in international governance. Hard law refers to legally binding obligations precisely established by an international treaty whereby states delegate to a third party the authority to interpret and implement the law. Soft law takes place when legal arrangements are weakened or become more flexible in one or more of the following dimensions: obligation (binding commitments); precision (whether rules have general or specific definitions) and delegation (how much authority over decisions is delegated to third parties/supranational bodies). The specific forms of soft law chosen reflect the particular problems actors are trying to solve – contracting costs, sovereignty costs, uncertainty, compromise and power differentials. Regarding each of these variables, Abbott and Snidal suggest the following hypotheses:

1- Contracting costs: Soft legalization mitigates negotiating and implementing costs related to bargaining, bureaucratic reviews, approval and ratification processes. By opting for escape clauses, imprecise commitments or forms of delegation that allow actors to maintain control over decision-making, states lower the costs of achieving an agreement (specially in negotiations with potentially strong distributional effects), as well as reduce the costs of operating within a legal framework that would require strong commitments and less flexibility for renegotiations of treaty terms.
2- Sovereignty costs: Greater sovereignty costs emerge when states accept external authority over significant decisions that may limit their ability to govern determined issues or require changes on domestic laws or governance structures. States often protect themselves by adopting less precise rules, weaker legal institutions, non-binding commitments and less extensive delegation of power.
3- Uncertainty: Many international issues are new and complex, so states cannot anticipate all possible consequences of a legalized arrangement. To deal with uncertainty, states can reduce the precision of their commitments, adopt arrangements not legally binding and moderate delegation through administrative bodies that provide support for

decentralized bargaining, expertise and capacities for collecting information while states maintain significant control over the institution.

4- Compromise: Negotiating a hard, highly elaborated agreement among heterogenous states is a costly and prolonged process. As one moves from bilateral to regional and multilateral negotiations, the degree of divergence among preferences and capacities of states increases, making harder to accommodate different interests within a single text. Softer agreement offers opportunities for achieving mutually preferred compromises by establishing general goals with less precision and limited delegation and provides flexibility in implementation, helping states deal with domestic political and economic consequences.
5- Power differentials: Powerful states are less in need of protection and face higher sovereignty costs. Thus, they are the most concerned with delegation and prefer forms of legalization that involve limited delegation to prevent unexpected interferences in their sovereignty while they preserve significant influence over decision-making.

Soft law is one of the concepts in the literature of international institutions that is related to the concept of informal intergovernmental organizations (IIGOs) developed by Vabulas and Snidal (2013). Soft law refers primarily to norms – all IIGOs rely on soft law, but not all soft law is an IIGO. IIGOs are located at the lower part of the spectrum that ranges from hard to soft international legalization (obligation is low, precision is low, and delegation is low to moderate, because they have some organization). As such, the benefits of governance and limitations of IIGOs are similar to those of soft law: low formation and operational costs, low sovereignty costs, more flexibility and limited enforcement mechanisms.[26]

The study of IIGOs has grown and, as a result, informal institutions have begun to be considered important in themselves, not only as a stage in development of formal organizations. IIGOs have proliferated in the post-Cold War period as an important form of governance,

[26] Other concepts related to IIGOs are (Vabulas & Snidal, 2013):

- Regimes: IIGOs are not a new definition for regime as the standard definition of regime proposed by Krasner (1982) fits to almost all entities in international politics.
- Transgovernmental networks: the concept developed by Slaughter (2004) involves networks of officials who exchange information with their international counterparts and coordinate activity to address common problems on a global scale. In contrast to her concept, IIGOs comprise strictly states (interactions occur at executive or ministerial level) and do not include sub-national actors (police investigators, financial regulators, judges, legislators).
- Informal governance: it involves the informal mechanisms, procedures and activities that states use to operate more effectively within formal institutional (Stone, 2011, 2013). IIGOs are stand-alone institutions.

covering a wide range of international issues. As of 2013, Vabulas and Snidal (2013) identified 51 IIGOs that met their three criteria of informal institution (explicitly shared expectations, explicit association, no independent secretariat). The increasing availability of IIGOs shows that international actors have been favoring this institutional form, contradicting the logic of institutional choice developed by Jupille, Mattli and Snidal (JMS) (2013). The JMS model suggests that states may opt for four distinct strategies to manage problems derived from international relations. The first option is to USE the default focal institution in the issue-area. If states have more than one institution to deal with the problem, they can SELECT one of the incumbent institutions. States may also CHANGE an incumbent institution to better manage the problem. Or, finally, states may decide to CREATE a new institution to replace the existing one. Considering the four strategies in sequence, states will analyze the options in terms of costs and risks and choose rationally and strategically the one that best fits their interests and cost-benefit ratio. As CREATE is the option that involves higher costs and uncertainty – as the new institution will completely replace the incumbent, and all its benefits and costs are unknow – CREATE is a rare event because is the risker one.

Importantly, JMS theorize in terms of formal institutions that implicate legally binding rules, strong enforcement mechanisms and surveillance. However, if we think in terms of IIGOs, we notice that decisions to CREATE institutions are more likely than JMS model suggests. The costs for creating informal institutions are on average substantially lower than the costs involved in the establishment of formal institutions. These costs of creation include (Vabulas & Snidal, 2013):

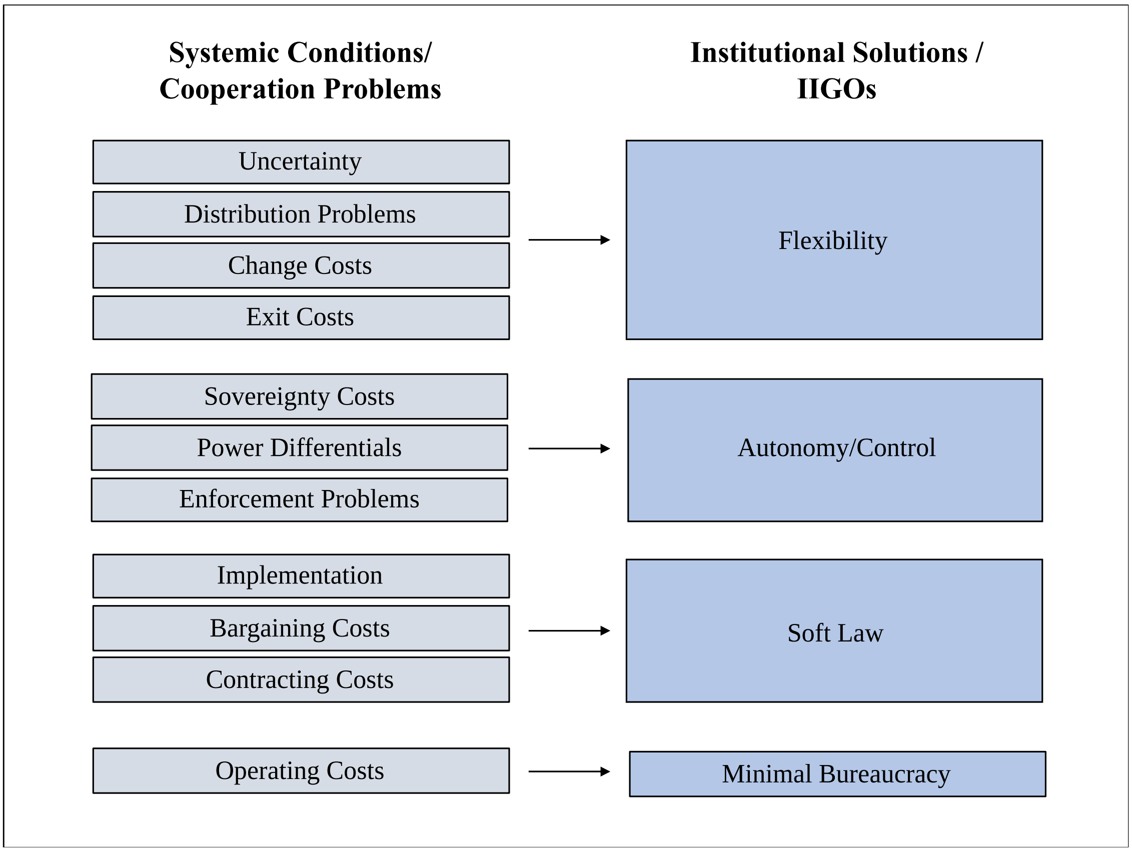
1- Transaction costs: Because IIGOs do not adopt legally binding rules, they can be formed with less formalities and bargaining.
2- Sovereignty costs: As states do not accept an external authority, IIGOs comprise less loss of control and autonomy over significant decisions.
3- Operating costs: IIGOs operate under less elaborated decision-making formalities and have no secretariat. The costs of routine activities such as salaries, expenses with meetings, institutional staff, executive bodies, headquarters are lower.
4- Change and exit costs: Due to their non-binding character, IIGOs are more flexible to modifications to their institutional attributes as a response to new conditions, and the reputational costs incurred by states that may desire to leave the institution are lower.

Regarding the benefits, IIGOs offer the same governance benefits of formal institutions: reduction of transaction costs, mitigation of information asymmetry, relationships and interactions among officials and establishment of stable expectations of behavior that help to reduce uncertainty (Keohane, 1984). IIGOs also offer additional and specific governance benefits not present in formal institutions, including: reduced risks that the institution will impact negatively on state's authority; institutional flexibility that allows the institution to fit for specific problems and contexts and to adapt more rapidly to unexpected circumstances; more engagement with experimental governance; and imposition of less constraints to states. Therefore, international actors choose IIGOs because they can offer superior institutional solutions and, in contrast to JMS model, they often are created not to replace incumbent institutions but to complement them, reducing the bias of status quo in global governance.

2.2 The RDI Framework applied to the CMIM case

All the conjectures/hypotheses suggested by the RDI literature are propositions about the systemic conditions under which states choose to work through an IIGO. States opt for informal institutions because they provide institutional solutions for problems derived from cooperation at lower costs and with less constraints. For analytical and simplification purposes, I summarize the RDI arguments presented above that will be applied in the CMIM case study as follows (Figure 4):

Figure 4: RDI Framework applied to CMIM



To study the CMIM case, I will analyze the conjectures detailed in Figure 4 through a paired comparison between the regional arrangement and the IMF. The interconnection of these two institutions – both belong to the same issue-area and have similar purposes related to provision of emergency liquidity support – offers a particularly insightful comparison that contributes to my effort of identifying the conditions under which states choose to work through an IIGO. In the context of CMIM's establishment – the 1997 Asian financial crisis – ASEAN+3 countries had to opt whether continuing to rely on the IMF and its formalities to access emergency loans or to create their own regional institution according to their preferences and needs. Before advancing straightforward to the analysis of how the conjectures fit to my real-world case, I illustrate in what manner the FMI and the CMIM meet the defining characteristics of formal (FIGO) and informal (IIGO) institutions respectively.

IMF – definition of FIGO (Pevehouse et al., 2004):

- <u>Formalized expectations:</u> the IMF is an interstate arrangement legalized through an international treaty. Adopted at the United Nations Monetary and Financial Conference, Bretton Woods, July 22, 1944, the Articles of Agreement entered into force on December 27, 1945, and was amended 7 times.

- Formal membership: the IMF is an organization of 189 member countries. Each member is assigned with a quota expressed in special drawing rights (SDR) and respective voting shares.
- Permanent secretariat: as of April 30, 2018, the IMF employed 2,314 professional and managerial staff and 430 support staff with a net authorized administrative budget for 2018 of US$ 1,104 million. Under the oversight of the Managing Director, IMF staff conducts routine activities of the organization, including surveillance (global, regional and individual), financing and technical assistance for member countries and lending process (IMF Annual Report, 2018).

CMIM – definition of IIGO (Vabulas & Snidal, 2013):

- Explicitly shared expectations: IIGO members share expectations about a common goal and jointly recognize that they face a common challenge. The difference between FIGOs and IIGOs is that, in FIGOs, expectations are codified in formal agreements and, in IIGOs, they may be manifested through public statements, organizational outputs or reports. In case of the CMIM, members have issued public statements – the Joint Ministerial Statements of the ASEAN+3 Finance Ministers and Central Bank Governors' Meeting – to publicize their shared expectations of dealing with the negative impacts of the Asian financial crisis through regional mechanisms as well as their joint decisions and plans regarding the CMIM's functions and operations: '*rapid movement of short-term capital flow is one of the causes of the [1997] financial crisis and [ASEAN+3 countries] agreed to work together…to prevent future crisis*' (AFMM+3, 1999); '*In order to strengthen [their] self-help and support mechanisms in East Asia through the ASEAN+3 framework, [they] recognized a need to establish a regional financing arrangement to supplement the existing international facilities…and agreed to strengthen the existing cooperative frameworks among [their] monetary authorities through the Chiang Mai Initiative*' (AFMM+3, 2000). With the CMIM multilateralization process, ASEAN+3 countries agreed on signing a legal treaty in which they act as contracting parties to create the CMIM. The CMIM agreement, however, does not push the regional organization for the FIGO side of institutional formalization spectrum, because the agreement holds many aspects of soft law in terms of imprecision of rules and less binding commitments among members as it will be shown in the detailed analysis below.

- Explicit association: in IIGOs, membership might be driven by substantive connections or by geography. States are explicitly associated by (non-legal) mutual acknowledgment. Financial and monetary cooperation in East Asia has been a process conducted under the umbrella of ASEAN+3 group, especially the group composed by finance ministers and central bank governors. Without a legally binding agreement that establishes a formal link among countries or membership rules, the ASEAN+3 is an association among member countries of ASEAN organization, China, Japan and Korea. The ASEAN+3 cooperation process began in December 1997 with the convening of an informal summit among leaders of ASEAN, China, Japan and Korea at the sidelines of the 2nd ASEAN Informal Summit. The ASEAN+3 meetings were institutionalized on a basis of regular meetings in 1999, when leaders issued the 'Joint Statement on East Asia Cooperation', defining the main objectives, principles and further directions of cooperation at various levels and in various areas (economic, social, political and other fields).
- Regular meetings without a permanent secretariat: member states of IIGOs hold regular meetings to discuss common concerns, share information, build consensus and agree on joint actions. Under the CMIM framework, countries hold meetings among representatives of ministries of finance and central banks at deputy-level twice a year and at ministerial/executive level once a year. The CMIM relies on a low-level organizational structure characterized by the absence of a permanent secretariat. Bureaucratic tasks, such organizations of meetings, are performed by a rotating co-chairmanship – each year two coordinating countries, one from ASEAN and the other from +3, are the co-chairs of the ASEAN+3 Finance Ministers and Central Bank Governors process and coordinate the CMIM's activities.

Now, I address the question of why and how states have designed the CMIM as an IIGO in terms of the four theoretical conjectures regarding institutional informality summarized in Figure 4.

1- Flexibility: when uncertainty about others' behavior and the state of world (crisis situation, for example) is high and distribution problems cannot be anticipated,

states prefer to not make strong and precise commitments, establishing agreements that can be easily adjusted in case of unexpected circumstances (change costs) or more readily abandoned (exit costs).

The threat of a new financial crisis is the kind of uncertainty that motivates the establishment of liquidity support institutions like the CMIM and the IMF. Financial crises are also an uncertainty that accompanies these institutions during their lives and may pose unexpected circumstances that require more institutional flexibility such as rapid and large financing solutions. The 1997 financial crisis marked a traumatic experience for East Asian region with the IMF's loans, especially for those countries that received the Fund's resources – Indonesia, Thailand and Korea. The onerous conditionalities that were imposed to governments for disbursements affected negatively economies in the long-term. As the emergency loans involved large amounts of funds, the IMF prescribed not only the well-known conditions related to fiscal and monetary tightening but also measures associated with structural reforms (privatization, governance, public enterprise, civil service reform, legal system reform) that increased the Fund's interference in domestic issues never seen before (Feldstein, 1998; IMF, 2001; Pelisson, 2015). The costs of Fund's policies outweighed by far the benefits for countries. The increasing of interest rates and reduction of public expenditures contributed to worsen crisis situation and deepen economic recession (Radelet & Sachs, 1998; Feldstein, 1998). As a result, Asian governments began to call for a reform and review of the role of international financial institutions that should involve the participation of emerging economies to ensure attention to their interests and priorities (ASEAN Finance Ministers Meeting, 1999). However, established and formal institutions such as the IMF cannot be easily adjusted, and any attempt to modify its rules implies high change costs. The IMF quotas reform is the most emblematic example of this situation. Discussions regarding the reform initiated in 2008, and the whole package was only approved by the Executive Board[27] in November 2010. The IMF expected to conclude the implementation process by 2012 but it took almost 6 years, ending in December 2016 with the approval of the US Congress. According to the IMF's rules, the Board of Governors[28] – the highest decision-making body composed by one representative of each member country – should ratify the new agreement by an 85 percent majority of votes cast before it came into

[27] The Executive Board is responsible for conducting the business of the Fund and consists of twenty Executive Directors elected by the members, with the Managing Director as chairman.
[28] The Board of Governors consists of one Governor and one Alternate appointed by each member in such manner as it may determine. Each Governor and each Alternate shall serve until a new appointment is made.

effect. Following the Board of Governors' approval, the amendment should be accepted by the membership, which in many cases involved parliamentary approval, delaying reform implementation. As such, the biggest shift of influence in favor of emerging markets and developing countries over the IMF as demanded by Asian countries only occurred almost 20 years after the financial crisis (IMF Press Release 10/418).[29]

Asian countries also claimed to the Fund to be more flexible in the way it lends money. In this field, no substantial changes have taken place, though the institution is still trying to find the right balance between discipline and flexibility. In the aftermath of the 1997 financial crisis, Executive Directors agreed on reviewing the conditionality framework in particular issues related to structural conditionalities, which were object of harsh criticism from Asian authorities and some scholars. Directors indeed agreed that some structural conditionality would likely remain necessary outside the Fund's core areas, covering structural reforms relevant and critical for the achievement of programs' macroeconomic objectives (Interim Guidance Note of September 2000; IMF Annual Report, 2001). Another measure implemented by the Executive Board was the creation of the Contingent Credit Line (CCL) in April 1999. The CCL was designed as a preventive measure to provide short-term financing to help members overcome exceptional balance of payments problems arising from a sudden and disruptive loss of market confidence. Although there was no need for a detailed definition of program targets (*ex post* conditionalities) as those applied by other facilities – Stand-by Arrangements and Extended Fund Facility – members only would be eligible for loans if their economic performance and progress in adhering to relevant internationally accepted standards were assessed positively by the IMF staff. A potential candidate approved for a CCL could request financing at any time and, after disbursement, it would be subject only to monitoring of its macroeconomic policies (IMF Annual Report, 1999; 2001). After the 2008 financial crisis, the CCL was divided into the Flexible Credit Line (FCL) and the Precautionary and Liquidity Line (PLL), both designed for crisis-prevention of countries with very strong policy frameworks and track records in economic performance. However, the fact that only three countries – Colombia, Mexico and Poland – have used the FCL[30] and two – Former Yugoslav Republic of Macedonia and Morocco – the PLL suggests that these new facilities are probably not helping to reduce the stigma associated with asking the IMF for support, and countries' concerns over perceived lack of

[29] The reform package comprised a doubling of quotas to approximately SDR 476.8 billion from SDR 238.4 billion; a shift of 6 percent of quota shares and voting power to dynamic emerging markets and developing countries; and two more seats for emerging countries in the Executive Board.
[30] None of the three countries have so far drawn down on these lines.

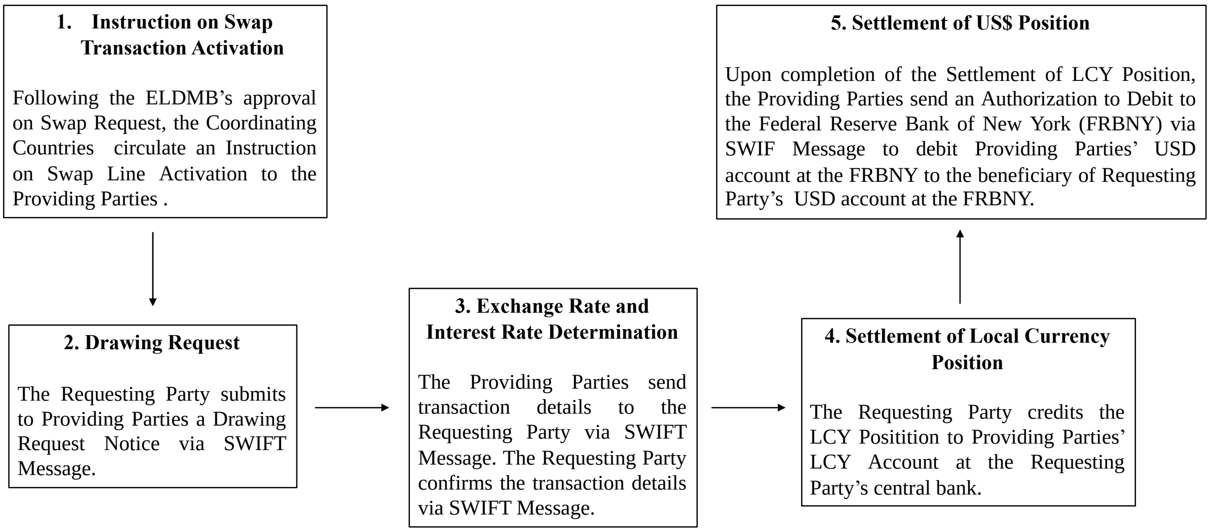
flexibility remains. To be eligible for the credit lines, countries must meet a long list of *ex ante* qualification criteria and also submit to *ex post* conditionalities and scheduled reviews. After all, the similarity to Stand-by Arrangements makes FCL and PLL not attractive to members in terms of flexibility and costs (IMF Executive Board Meeting 11/112, November 21, 2011; IMF Factsheet, February 25, 2019).

Since the strategy of pressuring the IMF for changes involved high costs and uncertain efficient outcomes, Asian countries chose to create an institution with a more flexible institutional framework. The CMI was established in the uncertain scenario of the 1997 financial crisis as an alternative venue to better address unpredictable future events of the international financial system. ASEAN+3 countries have sought to build an institution that could provide quick responses to members' liquidity needs at lower costs. In the beginning, the bilateral swap format of loans ensured the flexibility that members desired to accelerate disbursements. Since negotiations would be conducted bilaterally between potential borrowers and creditors, no decision-making bodies or extensive procedures for loan approval were established. This institutional structure also provided a better solution to cope with distribution problems. When establishing a new organization, states cannot anticipate the distribution problems that they may face, i.e. if the arrangement will bring better outcomes for one, leaving less benefits for others. In such sense, flexibility is desired to easily adapt the agreement to accommodate diverse preferences of members and to provide less costly exit options when members find that the institution no longer attend their interests. From creditors' side, the bilateral swap format ensured enough flexibility to not disburse funds to countries with a negative track record of financial soundness and implementation of strong economic policies. From borrowers' side, although this bilateral framework would increase bargaining costs, the possibility of obtaining any amount of liquidity support would be raised as there was not a solely decision-make body that might refuse completely the loan request. In terms of conditionality, up to 20% of the funds would be available without the borrower adopted an IMF program, which means that the borrower should only participate in the Economic Review and Policy Dialogue (ERPD) and present a report detailing its macroeconomic performance and policies. The ERPD is a surveillance mechanism created by the ASEAN+3 together with the CMI, and its design and operationality are also characterized by flexibility. The report that countries present in the meetings among finance and central bank deputies does not need to follow a standard template – information is presented according to what each country deems important and wants to disclose – and during peer review process, which should work as a monitoring tool, members' representatives usually refrain to make assessments and recommendations to the others, limiting the role of the ERPD to a non-binding and informal regional forum for information sharing (ADB, 2011; Kawai, 2015).

In 2010, bilateral swaps were replaced with a single multilateral swap agreement. The multilateralization process did not incur high change costs to members as the swap format was preserved as well as institutional flexibility. ASEAN+3 did not establish a single fund *per se* in which states should make contributions in the form of paid-in capital. They opted for a self-managed reserve pooling arrangement in which members commit to make contributions according to their respective shares, but funds remain under the control and management of national monetary authorities or central banks. The institution has remained based on a commercial contract among the central banks of the participating countries that may swap local currencies for US dollars in case of emergency liquidity needs. The CMIM's parties, however, are allowed to escape from contributing to a swap request upon approval of the executive decision-making body or in exceptional cases not clearly defined such as extraordinary events, instances of *force majeure* and domestic legal limitations. IMF's members, in contrast, must pay in full to the Fund the equal amount of their quotas (Article III, Section 1, IMF Articles of Agreement) and, if a member fails to fulfill this obligation and others set in the Articles of Agreement, the Fund may declare the member ineligible to use the general resources, suspend its voting rights and ultimately require it to withdraw from membership (Article XXVI, Section 2, IMF Articles of Agreement).

Within this new multilateral framework, a number of new provisions specifying the governance structure and decision-making procedures were defined. Regarding the approval of swap activation, states have been trying to make the process as faster and flexible as possible. First, when a member presents a swap activation request to the Coordinating Countries, which co-chair the ASEAN+3 meetings in the year, they send it to the Executive Level Decision Making Body (ELDMB) that should decide on the approval within two weeks (Hill & Menon, 2012). For the IMF de-linked portion, the CMIM Agreement indicates that the drawing of swap lines should be completed within one week following the date of ELDMB's approval. Activation timeline for the IMF linked portion has been reviewing to synchronize it with the disbursement of an IMF facility in case of co-financing. Figure 5 shows the swap line activation and drawing process (Operational Guidelines for CMIM Swap Transaction Mechanism, 2017). The IMF's approval process, in contrast, may take a longer time because the requesting party should negotiate with the Fund the program of economic policies that will be imposed to the country (*ex post* conditionalities) before the IMF provides the lending. These conditions are presented in a Letter of Intent and further detailed in a Memorandum of Understanding that should be approved by the Executive Board. During the Asian financial crisis, the emergency loans received by Thailand, Indonesia and Korea took around a month to be approved and withdrawn (Pelisson, 2015).

Figure 5: CMIM Swap Mechanism



Source: ASEAN+3 Taskforce on CMI Multilateralization Progress Report to the AFCDM+3, 2017.
*Providing Parties shall determine the Exchange Rates for the Local Currency Position on the basis of the exchange rate provided by Reuters, or any other exchange rate source as set out published two Business Days prior to the date of the relevant Drawing (CMIM Article 7.3.2). Providing Parties shall also determine the interest rate according to the CMIM Agreement (Article 7.3.4).

No single state has veto power in the ELDMB, which approves loans with a 2/3 majority effective vote. In case of the IMF, the voting share of the US confers it power to veto decisions within the Executive Board.[31] In terms of conditionality, states agreed on implementing less rigid *ex ante* conditions. For the IMF-delinked portion, requesting party only must submit its ERPD periodic surveillance report to the ELDMB. Especially in the case that a member requests an activation of the crisis prevention facility (CMIM-PL), it must meet the qualification criteria set in the ERPD Matrix. This Matrix comprises the assessment of country's macroeconomic performance in five qualification areas: external position and market access, fiscal policy, monetary policy, financial sector soundness and data adequacy (AFCDM+3, 2014). In comparison, IMF crisis prevention facilities – FCL and PLL – include nine

[31] Within the CMIM, to approve a decision, the ELDMB needs 66% of the total votes. This percentage can be reached without the participation of one of the two most powerful members – China and Japan. IMF decisions taken by the Executive Board needs 85% of the total votes to be approved. The US has 16.52% of the total votes, which means that the country can alone block decisions.

qualification areas to assess country's qualification for an arrangement.[32] ASEAN+3 countries also have been gradually seeking to reduce the IMF's involvement in the CMIM through the increase of de-linked portion to 40% of swap funds and the establishment of the CMIM Conditionality Framework (AMRO Annual Report, 2018). As mentioned above, during the 1997 Asian Financial crisis, the IMF expanded the scope of conditionality applied in the supported programs of Indonesia, Thailand and Korea, undermining countries' ownership of policy program and administrative capacity to implement truly essential policies. To illustrate, for each review of the program, Thailand should comply with 19 conditionalities to have access to funds, Korea with 26 and Indonesia with 27. These conditionalities were related to macroeconomic indicators and structural reforms (IMF Annual Report, 1999; Pelisson, 2015). Thus, the objective of CMIM's members is that institution's *ex post* conditions include the implementation of appropriate economic and financial policies that consider ASEAN+3 particularities instead of the broad, detailed and one-size-fits-all IMF adjustment programs.

2- Autonomy/Control: when states do not want to delegate authority to an external third party (sovereignty costs), they decide not to establish an independent secretariat for the institution in order to hold their power over important decisions. This is most true for powerful states that seek to preserve their influence over decision-making. However, in dealing with enforcement problems, states may find better to delegate authority when potential for opportunism is high and effective instruments for monitoring and enforcement are needed.

The swap format of lending is one of the CMIM's institutional attribute that protects members' sovereignty. As clearly defined in ASEAN+3 public statements, the CMIM is a self-managed reserve pooling arrangement in which members' financial contributions are in the form of commitment letters exchanged among central banks. Countries only transfer funds if a swap request is approved, and national central banks rest with the power of managing foreign

[32] Sustainable external position; capital account position dominated by private flows; track record of steady sovereign access to international capital markets at favorable terms; reserve position that is relatively comfortable when the arrangement is requested on a precautionary basis; sound public finances, including a sustainable public debt position determined by a rigorous and systematic debt sustainability analysis; low and stable inflation, in the context of a sound monetary and exchange rate policy; sound financial system and the absence of solvency problems that may threaten systemic stability; effective financial sector supervision; and data transparency and integrity (IMF Policy Paper - Adequacy of The Global Financial Safety Net— Review of The Flexible Credit Line and Precautionary and Liquidity Line, and Proposals for Toolkit Reform—Revised Proposals, 2017, file:///Users/dr/Downloads/pp121917-adequacyofgfsn-revisedproposals.pdf, accessed on 14 October 2019).

exchange reserves independently and can escape from providing funds if they have particular reasons to not contribute to a swap request (AFMM+3, 2007; 2009; 2010; 2012). Differently, when a state becomes a member of the IMF, it pays to the Fund an amount to obtain its quota. Members' quotas – or IMF's money – are expressed in special drawing rights, and the Fund is authorized to allocate them to members that are participants in the General Department and the Special Drawing Rights Department.[33] All operations and transactions involving special drawing rights or general resources are conducted by the Fund's staff of these departments under the supervision and approval of the Board of Governors or the Executive Board (Article III, Section 1; Article XV, Section 1; Article XVI, Section 1; Article XXI; IMF Articles of Agreement).

Another institutional characteristic that evidences states control over the regional institution is the lack of a permanent secretariat. Since its creation, ASEAN+3 countries have agreed on not establishing an independent secretariat to conduct the CMIM's operations. A rotating co-chairmanship carries out the tasks of an institutionalized secretariat such as organizing the meetings of the ASEAN+3 group. In this institutional format, every year a new pair of Coordinating Countries – one from ASEAN and other from +3 – co-chairs the ASEAN+3 Finance Ministers and Central Bank Governors Process and coordinates the swap activation process when a request for a drawing is made. The authority and power of states over important decisions are ensured through two decision-making bodies: the Ministerial Level Decision Making Body (MLDMB) – composed by the ASEAN+3 Finance Ministers and Central Bank Governors, it is responsible for approving by consensus fundamental issues such as the total size of the CMIM, contribution of each CMIM's party, incorporation of new members – and the Executive Level Decision Making Body (ELDMB) – composed by ASEAN+3 deputy-level finance and central bank officials, it determines by 2/3 majority effective vote issues related to swap activation (approval, initial execution of drawing, renewal of drawing, events of default). China and Japan, the most powerful members, have preserved their influence over decision-making through their voting shares, which represent together approximately 57% of the total votes[34] (AFMGM+3, 2012).

[33] Each member of the Fund that deposits with the Fund an instrument setting forth that it undertakes all the obligations of a participant in the Special Drawing Rights Department in accordance with its law and that it has taken all steps necessary to enable it to carry out all of these obligations shall become a participant in the Special Drawing Rights Department as of the date the instrument is deposited (Article XVII, Section 1, IMF Articles of Agreement).

[34] Negotiations on vote distribution brought up past rivalries and disputes among countries, especially between China and Japan. Financial contributions were central to determine the weight of each member's vote in the arrangement and so the capacity of influencing final decisions. Many formulas could have been applied with

The establishment of the ASEAN+3 Macroeconomic Research Office (AMRO) in 2011 has indicated a slight change of ASEAN+3's reluctance in delegating authority to an external third party. Before AMRO, parallel to the creation of the CMIM, states implemented the ERPD as the first regional surveillance mechanism. The ERPD is a dialogue forum based on voluntary exchange of information and peer reviews and integrates the CMIM institutional structure. It, however, lacks independence and impartiality as economic reports are prepared by countries whose governments mostly submit incomplete information with no defined standards and do not disclose critical indicators, inhibiting the comparison of national data and the assessment of regional financial vulnerabilities. Moreover, policy recommendations are provided by the finance and central bank officials that participate in peer reviews (Kawai, 2015). As early as 2004, experts from the ASEAN+3 Research Group[35] had already highlighted in a series of studies on economic surveillance and policy dialogue in East Asia that states needed to establish an independent surveillance mechanism or secretariat to enhance the CMI's effectiveness and reduce its link and dependence of the IMF.[36] AMRO was created with the purpose of strengthening regional surveillance capacity and enhancing the credibility and effectiveness of the CMIM as a politically independent and financially viable liquidity support arrangement. Governments agreed on creating '*an international organization with full legal personality and capacity for carrying out its purpose and functions*' (Chapter 1, Article 1, AMRO Agreement) and officially affirmed that surveillance activities should be conducted '*independently and without undue influence of any member*' (Chapter 2, Article 5 c, AMRO Agreement).

Yet, there is a number of ways in which AMRO's operational autonomy remains fragile. Regarding decision-making process, the Executive Committee – the highest body of AMRO – holds all power to make decisions, maintains strategic oversight of the organization and sets its policy guidelines. It is composed by two deputy-level representatives of each member – one from minister of finance and other from central bank – which is essentially the same composition of the CMIM's ELDMB. In such sense, the ASEAN+3 countries exert similar

different implications. If financial contributions were based on international reserves, China would take advantage. If they were based on GDP, at the time of negotiations in 2008-09, Japan would have the largest share. The two regional leaders reached an agreement, after Japan had accepted China's claim of adding to the contribution of its central bank the share of funds provided by the Hong Kong Monetary Authority. Therefore, Japan and China (+ Hong Kong) ended up with equal percentages – 32% – of financial contribution and voting share – 28.41% (Sussangkarn, 2010).

[35] The ASEAN+3 Research Group was launched at the ASEAN+3 Finance Ministers' Meeting in August 2003. The aim of the RG was to identify and explore subjects for possible regional financial cooperation from the medium-to-long-term points of views by mobilizing knowledge and expertise of private researchers and research institutions.

[36] https://asean.org/?static_post=asean3-research-group-studies-2004-2005, accessed on 10 April 2019.

authority over AMRO's issues as they do within the CMIM. The Executive Committee, for instance, reviews countries' assessment reports, approves AMRO's annual reports, which detail the performance of the functions and duties of the institution, and appoints the Advisory Panel members, which is a special body composed by experts mandated to provide professional inputs to macroeconomic assessments and recommendations to the Director and staff (Chapter 3, Articles 8 and 9, AMRO Agreement). In terms of budget, all financial resources needed for AMRO's operations are provided by ASEAN+3 countries in accordance with their contributions to the organization, which follow the same proportions as the CMIM. The Executive Committee reviews and approves the staffing levels, annual budget and work program of AMRO (Chapter 3, Articles 8 and 13, AMRO Agreement). AMRO's surveillance activities also suffer with pressures from individual governments through different channels. Before the final delivery of surveillance reports, the Director reviews and approves both the tone and the content, holding the power of deciding the final wording of the reports. As a result, the reports may be influenced by the personal preferences of the Director and ultimately by members' preferences since the Director is appointed by the Executive Committee and, thus, should be accountable to it and subjected to its general control (Chapter 3, Article 11, AMRO Agreement).[37] At the staff level, the recruitment process has prioritized the hiring of professionals that are mainly career bureaucrats from members' finance ministries and central banks.[38] As some of them are on a leave of absence from their respective governments and expect to return to their previous jobs, they inevitably consider national authorities' preferences and interests while doing their work. Governments interfere more directly in AMRO's surveillance in two ways: when they do not provide complete information required for economic assessment or ask for revisions of the reports before the issue of final version. AMRO Agreement establishes that the information required for surveillance should include information to be provided to the IMF for Article IV consultation and information furnished by members under the ERPD (Chapter 2, Article 4, AMRO Agreement). But, the decision on to what extent the data requested will be provided remains at members' discretion: '*Each member shall provide AMRO with relevant information and assistance as may reasonably be required for its*

[37] Deputies from the Executive Committee assess AMRO's Director according to four criteria: leadership (the strategic plan for AMRO's development); performance (economic surveillance, insights provided at the Executive Committee and deputy and ministerial level meetings of ministries of finance and central banks and effective implementation of Executive Committee's decisions and instructions); engagement (stakeholder engagement, communication and strategic partnerships); and management (budget and finance, human resources and internal systems and processes) (AMRO Director's Members' Assessment, ASEAN+3 Finance Minister and Central Bank Deputies' Meeting, 2017).

[38] For more details, please see: https://amro-asia.org/about-amro/who-we-are/

surveillance and other activities provided for under Article 3 to the extent permissible under its applicable laws and regulations. Members shall be under no obligation to provide information in such detail that the affairs of individuals or corporations are disclosed' (Chapter 2, Article 1, AMRO Agreement). After an annual consultation visit to a member, AMRO is expected to submit country's report to the member in two months. Member's authorities (finance ministry and central bank) can review the content, provide final comments and policy views within two weeks. The final report should properly reflect the engagement of authorities with AMRO's team by incorporating sheets of comments made by authorities and informing authorities' views expressed during policy discussion (AMRO Executive Committee's Meeting, 2017). Usually, national authorities are reluctant in disclosing politically and economically sensitive issues and demand that this information be removed from the reports. During annual consultations, AMRO also may offer policy recommendations to members on their macroeconomic and financial performance. However, the Asian principle of non-interference in domestic issues constrains AMRO's work and limits its role to '*a performance tracing role preventing it from intervening in other countries' internal affairs*'.[39] Governments do not easily accept criticism or advices given by AMRO (Ciorciari, 2011; Hill & Menon, 2012; Jiang, 2013, Siregar & Chabchitrchaidol, 2013).

IMF monitoring typically involves the preparation of Article IV annual reports, focusing on exchange rate, monetary, fiscal and regulatory policies and macro-critical structural reforms. For that, similar to what is detailed in AMRO Agreement, '*the Fund may require members to furnish it with such information as it deems necessary for its activities*' and '*members undertake to furnish the desired information in as detailed and accurate a manner as is practicable and, so far as possible, to avoid mere estimates*' without the '*obligation to furnish information in such detail that the affairs of individuals or corporations are disclosed*' (Article VIII, Section 5, IMF Articles of Agreements). The difference between the IMF and the AMRO is that the Fund has established rigorous procedures and punishment rules for members that do not furnish required information. When a member fails to provide information to the Fund, which includes both the non-provision of information and the provision of inaccurate information, the procedural framework encompasses the following steps: the Managing Director sends a notification to the member and holds consultations with it; if the member fails to provide the required information, the Managing Director informs the Executive Board the breach of obligation; the Executive Board at first recommends some remedial actions and provision of

[39] Quoting a senior Chinese Finance Ministry official, Zheng Xiaosong (Wenlei, 2010).

technical assistance; if the non-provision persists, the Executive Board issues a declaration of censure, establishing a new deadline for the implementation by the member of specified remedial actions; if the member does not implement those measures, the Managing Director may issue a complaint to the Executive Board and recommend that it declares the member ineligible to use the general resources of the Fund; the Executive Board may ultimately suspend member's voting and related rights and determine the compulsory withdrawal of the member from the institution (IMF Decision No. 13183-04/10 and amendments). Within the IMF framework, upon completion of a member's evaluation, IMF staff presents the report to the Executive Board for discussion. The Board's view on the report is then transmitted to country's authorities to whom, similar to AMRO, it is given the opportunity to provide and publish a statement regarding the staff and the Executive Board assessment in a Country Document.[40] For purposes of publication, deletions may also be made to Country Documents, but in contrast to AMRO they are not made according to members' desire. They should be limited to: (i) highly market-sensitive material, mainly on the outlook for exchange rates, interest rates, the financial sector, and assessments of sovereign liquidity and solvency and; (ii) material not in the public domain, on a policy the country authorities intend to implement, where premature disclosure of the operational details of the policy would, in itself, seriously undermine the ability of the member to implement those policy intentions. Deletions are requested in writing and should be approved by the Managing Director and the Executive Board (Article XII, Section 8, IMF Articles of Agreement; Decision No. 15420-13/61 and amendments).

As a surveillance organization, AMRO is expected to publish surveillance documents to enhance its credibility and influence as well as strengthen its surveillance reputation through outside scrutiny. Yet, members have chosen to provide the organization with low levels of transparency and preserve information confidentiality. AMRO Agreement establishes the following: '*AMRO, independently and without undue influence of any member, shall prepare such reports as it deems desirable in carrying out its purpose and functions, and communicate its views informally and confidentially to any member on any matters arising under this Agreement that may affect such member; AMRO shall publish such reports as it deems desirable for carrying out its purpose and functions…*' (Chapter 2, Article 5, AMRO Agreement). AMRO's Publication Policy was approved by the Executive Committee in

[40] Surveillance and Combined Documents, Use of Fund Resources Documents, Staff Monitored Program Documents and Policy Support Instrument Documents.

December 2016.[41] Publication of surveillance documents of individual countries such as annual consultation reports, brief updates and press releases needs to be approved by members' relevant authorities.[42] The Executive Committee approves for publication region-wide documents – regional economic outlook and updates – and policy documents – AMRO annual report. AMRO Director's approval is needed for other documents such as thematic studies, research papers, staff working papers, speeches, presentations, etc. (EC 2016-6-12/11, AMRO Executive Committee's Meeting, 2017). Taking a look at AMRO's website, we observe that few reports were published since AMRO's creation in 2011 – AMRO Annual Reports for 2016, 2017 and 2018; Regional Surveillance Reports for 2017, 2018 and 2019; Country Surveillance Reports for 2016, 2017 and 2018 – and not all countries have allowed the release of their individual reports.

In general, the IMF's Transparency Policy establishes that the publication of Country Documents is subject to the consent of the member; the publication of Fund Policy Documents[43] requires the approval of the Executive Board; and the publication of Multi-Country Documents[44] requires the consent of the members concerned or the approval of the Executive Board. A member's consent to publication by the Fund of Country Documents should be voluntary but presumed. The Fund should not publish the document if the member notifies the Executive Board that it (i) objects to the publication or; (ii) requires additional time to decide whether or not to publish or; (iii) consents to publication but subject to reaching agreement with the Fund on deletions to the document. In the absence of such notification, the Country Document is published by the Fund after the relevant Executive Board meeting (Decision No. 15420-13/61 and amendments). However, the Fund can publish a report by a seventy percent majority of the total voting power when country's '*economic conditions and developments tend directly to produce a serious disequilibrium in the international balance of payments of members*' (Article XII, Section 8, IMF Articles of Agreement). In recent years, surveillance has become more transparent, and most of members publish a press release summarizing the staff report and the views of the Board on the country's economic performance. The IMF has also taken steps to enhance member countries' transparency and openness, including setting voluntary standards for dissemination of economic and financial data to the public through

[41] Publication of documents was done on a pilot basis until the approved Publication Policy became effective on 1 January 2017.
[42] The CMIM-related documents such as ERPD reports are not included and should not be published.
[43] Fund Policy Issues Papers and Press Releases following Executive Board consideration of policy issues.
[44] World Economic Outlook, Global Financial Stability Report, Fiscal Monitor, Spillover Reports and Regional Reports.

initiatives such as the Special Data Dissemination Standard (SDSS) and the General Data Dissemination System (GDDS). More than 97 percent of members participate in these initiatives (IMF Factsheet, 25 March 2019). Additionally, decisions regarding a member's use of Fund's resources, including the conditionalities applied in the support program and the monitoring of program's implementation are issued to the public. Within the CMIM's framework, while governments contend that the activation of lending facilities should not be disclosed to not engage market participants in speculations, they have recently agreed that '*if necessary and available, some CMIM-related information can be disclosed for media coverage to bolster market confidence when the CMIM is activated and also be shared with third parties, including the IMF, subject to the decision made by the ELDMB and the consent of the requesting party*' (AFMGM+3, 2018).

Although one of the AMRO's core functions is to support the implementation of the CMIM and ensure its operational readiness, the organization is not part of the CMIM's institutional framework and does not function as CMIM's secretariat. Swap activation process and final decision on requests are still under members' control through the ELDMB. AMRO is tasked to provide secretariat support only if requested by the Coordinating Countries on issues related to conference support, information management, recording, liaison functions, recommendations on a swap request and any other support as requested by Coordinating Countries. In 2017, upon request of the Co-Chairs, AMRO staff presented a plan to establish a more structured AMRO's secretariat function to the CMIM consisting of a three-stage development. The stage 1 is the current practice of AMRO, which involves the provision of secretariat support if requested by Coordinating Countries. The stage 2, which is under discussion, is basically a formalization of AMRO's support function for CMIM to clarify AMRO's role and responsibilities during CMIM activation process. A revision of Article 5.2.7 and Article 18 was proposed to replace the term 'Coordinating Countries' request' with 'Coordinating Countries' oversight' as follows in Figure 6. The stage 3 is the establishment of CMIM permanent secretariat with Coordinating Countries still in charge of decision-making and CMIM's guidance, and AMRO responsible for administering CMIM activation process and day-to-day affairs. Members of the ASEAN+3 Taskforce on CMIM Multilateralization have sought for Deputies' endorsement to include the enhancement of AMRO's secretariat function as one of the issues of CMIM Periodic Review, but the proposal was turned down by the

Executive Committee (ASEAN+3 Taskforce on CMI-Multilateralization, Progress Report to the AFCDM+3, 2017).[45]

Figure 6: The Proposed Revision of CMIM Agreement

Current CMIM Agreement	***(Tentative) Proposed Revision***
✓ **Article 5.2.7 – Secretariat Support from AMRO to the Coordinating Countries** In the coordinating process under Article 5.2, the Coordinating Countries may request AMRO to provide them with secretariat support, if necessary, to ensure smooth and speedy coordinating process.	✓ **Article 5.2.7 – Secretariat Support from AMRO to the Coordinating Countries** *Under the Coordinating Countries' oversight, AMRO shall provide secretariat support for CMIM to ensure smooth and speedy implementation of CMIM Arrangements.*
✓ **Article 18 – AMRO** AMRO shall be given the following functions: (d) provide secretariat support to the Coordinating Countries if requested in accordance with Article 5.2.7.	✓ **Article 18 – AMRO** AMRO shall be given the following functions: (d) *under the Coordinating Countries' oversight, to provide secretariat support for CMIM to ensure smooth and speedy implementation of CMIM Arrangements.*

Source: ASEAN+3 Taskforce on CMI-Multilateralization, Progress Report to the AFCDM+3, 2017.

In dealing with enforcement problems, ASEAN+3 countries, especially China and Japan as creditor countries, have decided to take the opposite direction and delegate the responsibility and burden of setting conditionalities and monitoring the use of CMIM's funds to the AMRO and the IMF, abstaining from making tough decisions and causing divisions and conflicts among members. By means of a dual strategy, states have nested the CMIM in the global regime through the IMF-linked portion (Grimes, 2011) – 70% of CMIM's funds are linked to IMF's conditionalities as borrowers should adopt an IMF program to receive the resources – while have preserved the regionalism of the arrangement by delegating to AMRO the task of monitoring the use of the remaining 30% of CMIM's funds. The AMRO has also been working on the development of CMIM's *ex ante* and *ex post* conditionalities established in the CMIM Conditionality Framework. Since 2012, ASEAN+3 governments have been discussing the possibility of increasing the IMF de-linked portion to 40%. The 2012 finance ministers' and central bank governors' statement was a carefully worded statement reflecting the strong divergent views on this issue and was clearly not intended to be a commitment: '*to increase the IMF de-linked portion to 30% in 2012 with a view to increasing it to 40% in 2014 subject to*

[45] The first Periodic Review of the CMIM Agreement was concluded and the amended Agreement was approved in 2019 (AFMGM+3, 2019).

review should conditions warrant' (AFMGM+3, 2012). Discussions are still in progress, but the future scenario points towards continuity. A group of members understands that some ASEAN+3 countries still encounter the IMF stigma issue but argues that the IMF had made significant reforms in the past ten years to better suit the needs of emerging market economies and developing countries. They stress the urgency to focus on enhancing the CMIM swap mechanism and improving coordination with the IMF, noting that raising the de-linked portion would only send wrong signals to the markets. Moreover, they contend that AMRO needs to show more progress not only on macroeconomic and financial stability risk analysis but also on depth knowledge of each countries' situation. Other members, on the contrary, recognize that although some areas still need improvements, AMRO has significantly enhanced its institutional, organizational and surveillance capacity and has contributed to CMIM operational readiness with peacetime checklist exercises and test runs of activation procedures. In April 2016, deputies have set out nine indicators and an assessment method to evaluate AMRO's role in a potential increase of the IMF de-linked portion. At the following meetings, there were two indicators where AMRO was not rated highly by members – AMRO as trusted advisor and AMRO's readiness to determine *ex-ante* qualification criteria and *ex post* conditionalities to guide decision, with the latter receiving the lowest average scores among the nine indicators. These results reinforce the previous evidences presented above that ASEAN+3 does not intend to delegate more authority or increase AMRO's autonomy in its supporting activities for CMIM implementation. Members share the common view that AMRO should be capable of determining appropriate conditionalities in the event the de-linked portion is activated. Therefore, they still prefer to rely on IMF's expertise and effective instruments for monitoring the use of emergency loans (ASEAN+3 Taskforce on CMI-Multilateralization, Progress Report to the AFCDM+3, 2017; Co-Chairs' Summary of the ASEAN+3 Taskforce Meeting, 2017).

3- Soft Law: as IIGOs are not formed by legal treaties and often involve less binding commitments, imprecise rules and escape clauses, they can be implemented more quickly because of lower contracting costs (less formalities in approval and ratification processes) and bargaining costs (it is harder to accommodate different preferences within a highly elaborated and legalized agreement).

Since its creation, the CMIM has been based on a legal framework of second order constituted of less binding commitments, imprecise rules and escape clauses. In the beginning, the bilateral network of swaps consisted of contracts among central banks of participating countries without specifications about activation procedures or conditionalities. After the multilateralization process, rather than establishing a highly elaborated and legalized agreement, states have preferred to maintain the informal format of the institution. Although ASEAN+3 governments agreed on signing a single multilateral agreement to replace the bilateral swaps, they opted to continue with the swap model, incurring in lower bargaining and contracting costs and speeding the implementation of the regional institution as it would still be based on contracts among central banks. The CMIM was transformed indeed into an arrangement of commitment letters that central banks exchange indicating their commitment – not obligation – to provide financial support up to their contributions to a member that requests swap activation. A negotiated escape from providing funds without any penalty is possible upon approval of the ELDMB, or as a result of extraordinary events – non-specified exceptional cases – that enable members to opt out without even obtaining the ELDMB's approval (AFMM+3, 2007; 2009; 2010; 2012). In comparison to the IMF, to become a member and have access to the Fund's resources, the country has the obligation to pay in full to the Fund the amount equivalent to its quota. If the Board of Governors approves an increase of a member's quota, for instance, the change only becomes effective upon member's payment of the respective increase (Article III, Sections 1 and 2, IMF Articles of Agreement). Within the IMF framework, there is no escape clause. Of course, any member can withdraw from the Fund at any time by transmitting a notice in writing, but the withdrawal turns compulsory if a member fails to fulfill any of its obligations under the IMF Agreement such as the payment of its quota. The decision of requiring a member to withdraw from membership is carried by a majority of the Board of Governors having eighty-five percent of the total voting power. Before this final decision, the Fund takes other measures, including a declaration of ineligibility of the member to use the general resources and a suspension of member's voting rights (Article XXVI, Sections 1 and 2, IMF Articles of Agreement).

Regarding conditionalities, while the CMIM's members have agreed on some issues such as rules of governance and terms of lending, they have abstained from making deeper commitments with respect to conditionalities. In case of *ex ante* conditions, although a range of *ex ante* conditionalities was set out for the crisis prevention facility (CMIM-PL), they are quite vague, comprising a set of underspecified policies defined as external position and market access, fiscal policy, monetary policy, financial sector soundness and supervision and data adequacy. *Ex post* conditionalities are hardly specified for both facilities (CMIM-PL and

CMIM-SF). The CMIM agreement only establishes that selected issues presented in AMRO's country reports and ERPD reports will be reviewed and monitored by AMRO and endorsed by the ELDMB on a bi-annual basis after an emergency loan is approved (AFMGM+3, 2012; 2018). Likewise, the IMF agreement broadly points out that the Fund may adopt special policies for special balance of payments problems to assist members to solve their problems and establish adequate safeguards for the temporary use of its resources. But, after the IMF agreement entered into force, the Fund developed a guideline on conditionality as part of its secondary rules, determining principles, modalities of conditions (prior actions, macroeconomic variables, structural measures) and evaluation and review processes (monitoring of performance and periodic program reviews) (Decision No. 270-53/95 and amendments). As mentioned before, this guideline has evolved over the course of the IMF's history, being reviewed and adapted to the circumstances of each economic or crisis time.

ASEAN+3 has been addressing the flaws of the CMIM institutional framework with AMRO's support in three work fronts. First, AMRO has been developing the ERPD Matrix to assess qualification for the CMIM-PL, applying both quantitative and qualitative measures. Specific indicators for each issue-area were established – in total, AMRO evaluates 22 indicators – as well as a scorecard that assesses member's macroeconomic and financial performance (AMRO Annual Report, 2018; ERPD Matrix Report to the ASEAN+3 Deputies, 2017). Second, AMRO has been conducting peacetime preparation exercises to encourage members to prepare national manuals for CMIM activation, aiming to identify specificities and differences in swap procedures of each member[46] (ASEAN+3 Taskforce on CMI-Multilateralization, Progress Report to the AFCDM+3, 2017; Co-Chairs' Summary of the ASEAN+3 members Taskforce, 2017). Third, since 2013, AMRO has been carrying out test runs involving the CMIM's members and external actors considering diverse scenarios and activation of different CMIM facilities. These test runs intend to enhance CMIM operational readiness through improvements in the Operational Guidelines – relevant activation procedures for the IMF de-linked and linked portions. In 2016, the first test run was conducted for the IMF linked portion of the CMIM-SF with participation of the Fund providing co-financing. The joint test run brought up some issues for CMIM-IMF coordination process and the overall CMIM

[46] To illustrate, an important finding of one test run was that not all members had accounts at all other members' central banks, which would create a major impediment for swap activation as swap transactions basically involve the transfer of funds between central banks. AMRO drafted a Manual for CMIM Swap Transaction Mechanism in coordination with the Federal Reserve Bank of New York, which was endorsed by the Deputies in December 2017. AMRO has also verified if members have domestic legal limitations to US$ provision and any controls of capital outflows concerning the CMIM.

framework that need to be addressed such as information-sharing, burden/risk sharing, split of financing and program design (AFMGM+3, 2017). Other important outcomes were that the maturity terms of CMIM swaps were shorter than IMF lending, which could make CMIM swaps senior to IMF lending, and CMIM swaps had no provision for disbursement in tranches. These inconsistences were resolved by ASEAN+3 finance and central banks' authorities who have agreed on, in case of the IMF linked portion, applying flexibility to the schedule of disbursement, subject to the decision of ELDMB, and lengthening the CMIM supporting periods by increasing the maximum number of renewals from two times to multiple times. They have also pointed out that a coordination process with the IMF will be established to have a shared view on economic and financial situations, financing needs and policy recommendations for co-financing and have emphasized that both institutions will continue to form an independent view on their respective financing decisions (AFMGM+3, 2018). Finally, AMRO has been developing the CMIM Conditionality Framework, and deputies endorsed its guiding principles in December 2018. They have also agreed on adding a legal basis for conditionality of crisis resolution facility following the same pattern as of crisis prevention facility, and have reaffirmed that, in joint financing programs, conditionality of the approved CMIM arrangement should be consistent with the IMF-supported program through early information sharing and engagement and collaboration based on one coherent program (AFMGM+3, 2018).

4- Minimal bureaucracy: the operating costs of routine activities are reduced in IIGOs, because states choose to minimize bureaucratic centralization and adopt fewer formal procedures for decision-making.

Bureaucratic centralization is virtually non-existent in the CMIM. First, the CMIM has no secretariat. The costs of organizing and holding meetings are divided among countries as each year two members co-chair the events of ASEAN+3 group, including the finance meetings. Second, the CMIM's resources are managed individually by each member. Unlike the IMF that maintains a General Department and a Special Drawing Rights Department to administer its funds and conduct its operations and transactions (Article XVI, IMF Articles of Agreement), the swap format of the CMIM puts national central banks at the center in managing the funds of the institution and carrying out loan transactions. In such sense, the operating costs regarding the management of funds are low once members only give continuity to their policies and procedures for administration of their foreign exchange reserves. Similarly, the costs related to swaps are minimal as the period of loans is short and lending operations involve mainly the opening and maintenance of accounts at all central banks and the transfer of funds from creditors' central banks to borrower's central bank. Third, decision-making entails basically the ELDMB, and lending approval does not involve many formal procedures. For the IMF de-linked portion, swap activation only depends on the decision of the ELDMB, and negotiation of conditionalities may not take a long time. In the actual CMIM's format, conditions for swap approval include the satisfaction of qualification criteria, particularly for crisis prevention facility, and strong macroeconomic performance indicated in ERPD and AMRO reports for facilities in general. After the release of funds, these same conditions are applied as monitoring tool. For the IMF linked portion and joint financing arrangements with the IMF, the approval and disbursement processes can be longer, because the policy program is established in coordination with the Fund and should be one coherent program consistent with the IMF's and CMIM's guidelines. Within the IMF framework, if a country requests an emergency loan, it first has to negotiate and agree with the Fund all the lending conditions that will be presented in the Letter of Intent and further detailed in the Memorandum of Understanding. Both documents need to be approved by the Managing Director before being sent to the Executive Board. Often, the Managing Director makes a recommendation for loan approval to the Executive Board. Then, the policy program is analyzed by the Executive Board who has the final word on approval. However, during the discussions of a supported program, the Board may ask for modifications on policy conditionalities, returning the decision-making process to initial negotiating stage and causing possible delays in disbursement of funds. Finally, the operating costs related to decision-making are also not high within the CMIM framework. Decisions on swap requests are based on finance deputies' assessment of requesting party's macroeconomic and financial performance. Individual evaluation reports used by the ELDMB to support its decision are prepared by countries for the meetings of ERPD and not by a CMIM's staff. Although deputies may use countries' reports developed by AMRO and adopt AMRO's recommendations to corroborate their decisions, the costs of AMRO's staff are low. For instance, in 2018, the organization spent USD 20.8 million with its operations, which represents 0.01% of the CMIM's total size (AMRO Annual Report, 2018). With respect to the IMF, in 2018, administrative expenses amounted US$ 1,309 million representing 0.2% of the total Funds' quotas (IMF Annual Report, 2018).[47]

[47] The conditions for implementing the quota increases agreed under the Fourteenth General Quota Review were met on January 26, 2016. As a result, the quotas of each of the IMF's 189 members will increase to a combined SDR 477 billion (about $686 billion) from about SDR 238.5 billion (about $343 billion). As of April 30, 2018,

The comparison of the CMIM and the IMF institutional attributes summarized in Table 5 demonstrates a consistent support for the conjectures proposed by the RDI literature. As a result of the though experience with the IMF support-programs during the 1997 Asian financial crisis, ASEAN+3 countries chose to establish a regional institution that could ease their access to emergency loans through a less formal and rigid institutional framework. The CMIM was designed to maintain flexibility and states' autonomy, preserve members' control over decisions and operations, set out less binding commitments and minimize bureaucratic costs. Providing the CMIM with these institutional attributes was the alternative found by ASEAN+3 governments to escape from the strict formalities of the IMF such as conditionalities, long lending approval process and monitoring and surveillance mechanisms.

Table 5: Summary of Conjectures for the CMIM and the IMF

FLEXIBILITY	
CMIM	**IMF**
• Financial contributions as commitment letters exchanged among central banks • Escape clause for non-provision of funds in case of swap activation • Less rigid *ex ante* and *ex post* conditionalities / IMF de-linked portion • 3 weeks for disbursement of funds (IMF de-linked portion) • Members' without veto power • Low change cost: swap format maintained after multilateralization	• Contributions as paid-in capital • Penalties for non-payment of respective quota • Large number of conditionalities applied to facilities • Longer lending approval process (~ 1-2 months) • Possibility of US veto • High change cost: Quotas' reform
AUTONOMY / CONTROL	

181 of the 189 members had made their quota payments, accounting for over 99 percent of the total quota increases, and total quotas stood at SDR 475 billion (about $684 billion).

CMIM	IMF
• Swap format: transfer of funds upon swap activation request • Independence of funds' management: members manage their funds individually • Lending process conducted by the Coordinating Countries and countries' deputies through the ELDMB • No permanent secretariat / Rotating Co-Chairmanship (reluctance in transforming AMRO into CMIM's secretariat) • Control of information: non-provision of required information for surveillance and countries' control over the content of AMRO's reports • Limited publication policy	• Transfer of funds upon quota's payment • Administration of funds made by the General Department and the Special Drawing Rights Department • Lending process conducted by the IMF's staff • Independent and permanent staff • Penalties for non-provision of required information and rules for deletions or revisions of the content of countries' reports • Few restrictions on publication of reports and adoption of initiatives for data dissemination (SDSS and GDSS)
SOFT LAW	
CMIM	**IMF**
• No obligation of financial contributions: non-binding commitment of providing funds ensured by the swap format adopted in the creation – bilateral swap agreements – and after multilateralization – multilateral swap agreement • Escape from providing funds: extraordinary events or exceptional cases not specified • Non-specifications on conditionalities	• Obligation of financial contribution: payment to the Fund the equivalent amount of member's quota (same applied for quota's increase) • Penalties applied for members that do not fulfill payment obligations with the possibility of compulsory withdraw • Guidelines on conditionalities as secondary rules
MINIMAL BUREAUCRACY	
CMIM	**IMF**
• No permanent secretariat • Individual management of funds by each member • Less formal procedures for lending approval: analysis and decision centered on the ELDMB	• Large staff: as of 2018, 2,314 professionals and authorized budget of US$ 1,104 million • Specific departments for management of funds • More formalities for lending approval: (i) negotiation of conditionalities; (ii) elaboration of the Letter of Intent and the Memorandum of Understanding; (iii) revision and approval of both documents by the Managing Director and the Executive Board; (iv) disbursement of funds

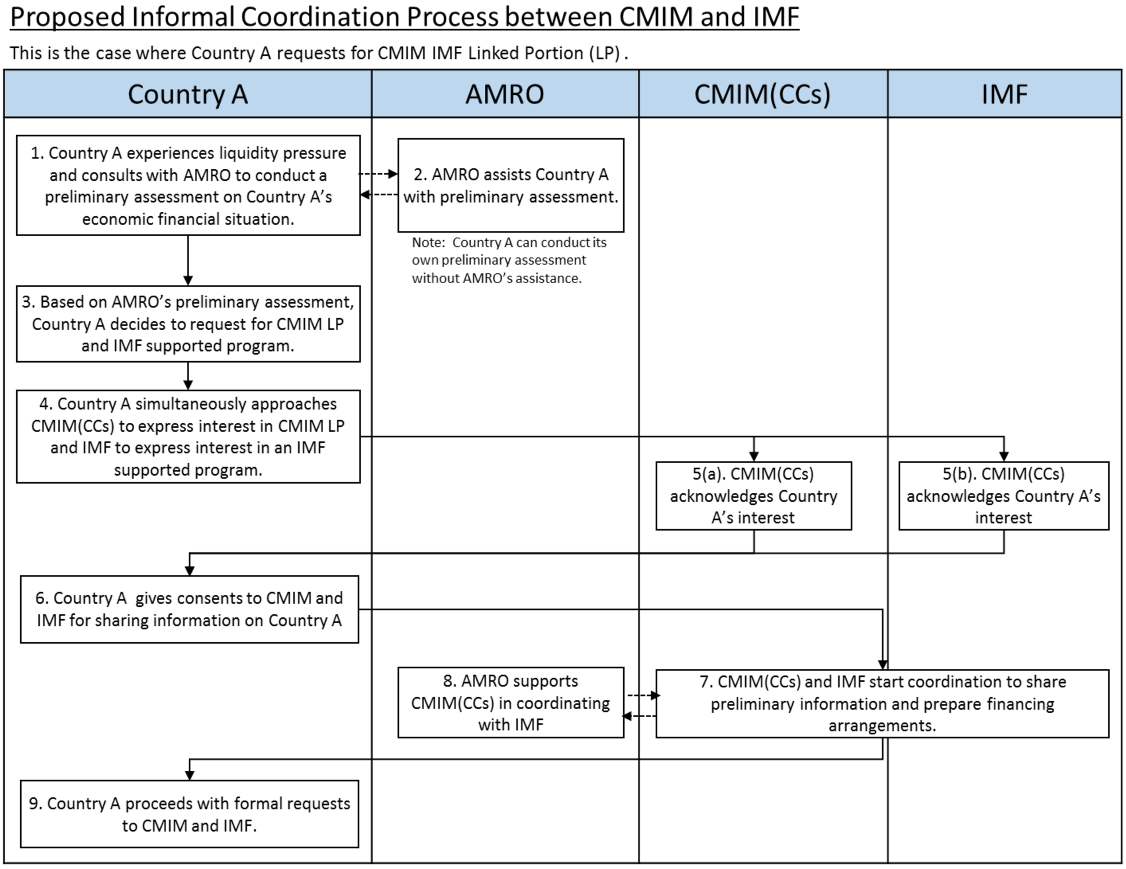
Unlike what JMS model suggests, in case of informal institutions, decisions to create institutions are more likely due to their superior institutional solutions. Because the costs for creating informal institutions – transaction, sovereignty, operating, change and exit costs – are lower, and governance benefits are greater than those offered by formal institutions – less constraints, flexibility to deal with uncertainty, reduced impacts on state's authority –

ASEAN+3 countries decided to create a new institution. This new institution, however, was not formed to replace the incumbent institution, as JMS propose, but to complement it. In numerous occasions, the CMIM's members have asserted that, in order to strengthen the global financial safety net, the regional arrangement and the IMF should co-exist and not compete. The first CMIM-IMF joint test run in 2016 marked a milestone in advancing cooperation between the two institutions. The test proposed a co-financing scenario. It assumed a situation that liquidity support by CMIM-SF transits from the IMF de-linked portion to the IMF linked portion or to a request for an IMF facility, as follows (ASEAN+3 Taskforce on CMI-Multilateralization, Progress Report to the AFCDM+3, 2017):

- Country A has experienced difficulties of short-term USD liquidity and/or balance of payments.
- Country A requests for CMIM-SF with IMF de-linked portion based on analysis of financing gap. The ELDMB approves Country A's request for CMIM-SF with the IMF de-linked portion, taking into account the Economic and Policy Report provided by Country A and the AMRO Report.
- In intervals of several months, Country A's USD liquidity difficulties escalates, and it seeks for more liquidity support from both the IMF and CMIM (IMF linked portion).
- Country A approaches the IMF and the CMIM for liquidity support.

Figure 7 details the proposed informal coordination mechanism between the CMIM and the IMF. According to ASEAN+3 countries, establishing a concrete coordination process to prepare co-financing at an earlier stage is imperative and an important step in formulating a common understanding on how to share views and information. They suggest that this mechanism could become a model for IMF-RFA collaboration as a regular platform for comprehensive and close dialogue and collaboration on surveillance, capacity building and information sharing (Interim Report from the WG2 for the CMIM Periodic Review, 2017).

Figure 7: Proposed Informal Coordination Mechanism between the CMIM and the IMF



Source: Interim Report from the WG2 for the CMIM Periodic Review, 2017

The same institutional features that explain the low costs and specific governance benefits of informal institutions may also act as limitations, undermining their ability to address cooperation problems. Liquidity support arrangements can be considered a variety of institution where credible commitments are essential, defection from cooperative solutions is likely and centralization of activities is required. As lending to countries facing liquidity or balance of payments difficulties involves high risks, informal institutions may not be the optimal institutional choice. In case of the CMIM, the arrangement is based on non-credible commitment among members to provide funds, imprecise rules and procedures for swap activation and underspecified conditions for use of the funds. Most scholars argue that these informal characteristics explain why the regional mechanism has never been activated. Although, I recognize that this is a relevant issue, I contend that the importance of the regional institution should not be diminished by this aspect. The CMIM should be understood much more as a political project than an economic undertaking. The creation of the CMIM was driven by ASEAN+3 governments' shared expectation to find a regional solution for the problem of financial stability and, most importantly, to seek independence from the influence of external actors such as the IMF and Western powerful economies. In choosing an informal design for the regional institution, states have assumed the tradeoff of not binding themselves as strongly as with a treaty-based or hard-law institution, but still achieving a significant degree of governance with lower political and material costs. Considering Asian crisis context at the time of the CMIM's establishment as well as the particularities of Asian regionalism, an informal regional institution was the best institutional choice in terms of costs and benefits for states, ensuring the successful implementation of the arrangement. From the analysis of the CMIM presented above, recent developments have shown that members have been seeking to reduce the level of informality of the institution. Governments have realized that weak institutionalization may limit CMIM's operational readiness and effectiveness. As detailed previously, important improvements have been taking place on surveillance, swap mechanism, conditionalities, monitoring and enforcement in order to make the CMIM a more financially credible regional liquidity support mechanism.

Chapter 3: Domestic Conditions and the Bureaucratic Politics Model

The unitary state assumption is a valuable simplification applied by the RDI literature to explain the choices of states between formal and informal institutions. In this chapter, I relax this assumption and expand the lens to include domestic political actors in CMIM's analysis.

3.1 Foreign Policy Analysis

Foreign Policy Analysis (FPA) is a subfield of International Relations grounded in the assumption that human decision makers acting singly or in groups are the basis of all that happens in international relations. It does not assume states as unitary rational and purposive actors and emphasizes the development of actor-specific theory/explanations. States are not agents because states are abstractions and thus have no agency. Only humans can be true agents and their agency is the source of all international politics and changes. In such sense, FPA incorporates a more robust concept of agency than IR theory, which have struggled for some time with the agent-structure problematic issue, providing more insights about structure than agency (Hudson, 2002). In such sense, FPA proposes a domestic-political explanation of foreign policy in contrast to systemic or structural explanations as conceived by Waltz (1979). A systemic IR theory explains states' actions – or foreign policies – in the international system only in reference to the relational property of power. By contrast, a domestic-political theory takes states as nonunitary and that such considers unit-level attributes – culture, political regime, domestic interactions, domestic groups, individual actors, institutions – rather than relative power to explain foreign policies, especially variation in foreign policies (Fearon, 1998). Moreover, a systemic IR theory is not a theory about the process by which foreign policy is made but it is rather a theory about the outcomes of states' individual choices of foreign policies and the regularities of international politics such as the balance of power. In contrast, the focus of FPA relies exactly on understanding foreign policy decision-making process as versus foreign policy outcomes. The goal is to uncover which factors affect foreign policy decision-making and policymakers, thus exploring 'why' and 'how' questions underlying events, conditions and patterns of state action (Snyder et al., 1954; 1962; Rosenau, 1966; Hudson, 2002).

FPA proposes an integrative theoretical enterprise based on multifactorial analyses with multilevel explanatory variables, from the most micro to the most macro, that may affect the decision-making process (Hudson, 2002). By the definition of foreign policy – '*the strategy or approach chosen by national government to achieve its goals in its relations with external entities*' (Smith, Hadfield & Dunne, 2008) – FPA scholars emphasize that decision-makers operate in a dual-aspect setting in which internal and external factors impact their actions (Snyder et al., 1962). States' preferences or national governments' choices are determined in the internal environment, while external relations or international politics constrain states' actions (Neack, 2003). Given this double-sided nature, political phenomena that belong to foreign policy sphere are better understood if we adopt an analytical framework that considers the dialectic interplay between states' actions and the context where they act. States are oriented towards achieving goals, and their actions become only comprehensible taking into account the surrounding context, here, the international system (Hill, 2003; Hay, 2002).

Regional cooperation and institution-building can be understood as political processes that ultimately involve decisions of foreign policy. In such sense, I contend that the process of institution-building of the CMIM can be analyzed through the lens of FPA. I propose a case study analysis that will examine how systemic and domestic conditions account for the CMIM's informal institutional design. Therefore, to explain the decision-making process of CMIM's institutional design, i.e. why the regional arrangement was shaped in a determined way, I combine systemic conditions proposed by the RDI literature – as explored in chapter 2 – with domestic conditions stemmed from the bureaucratic politics model.

3.2 The Bureaucratic Politics Model

The theoretical foundation of bureaucratic politics relies on Weber's 'The Theory of Social and Economic Organizations'. According to him, the main interest of bureaucracies is their survival measured fundamentally by their relative influence in domestic politics *vis à vis* other bureaucracies. In any case, bureaucracies will seek to increase their influence and preserve what they judge as their essence or mission. The adoption of this approach in foreign policy analysis has started since the publication of Allison's famous study 'Essence of Decision' in 1971. In this study, Allison offers three models to explain the Cuban Missile Crisis of 1962. He shows that the unitary rational actor model of foreign policy making does not suffice to understand the crisis. Applying two additional models – the Organizational Process Model and the Bureaucratic Politics Model (the former related to intra-organizational factors and the latter to interorganizational factors), Allison explains more fully what occurred.

According to Allison's Bureaucratic Politics Model, government's action in foreign policy is perceived as political resultant: resultant in the sense that policy choices are not the solution to a problem, but rather are the product of compromises and conflicts among officials with different interests and asymmetrical power of influence; political in the sense that decisions and actions emerge from bargaining games played along regularized channels among members of the government. Separate responsibilities laid on distinct individuals encourage differences in what each judges as important and in what should be done. As men hold unequal amounts of power, sometimes one group who stands for a specific course of action triumphs over other groups who support other alternatives. Thus, government's decisions and actions result from the political process characterized by a bureaucratic politics orientation in which the power and ability of proponents and opponents determine their capacity of influencing an action.

The Bureaucratic Politics Model is formulated as answers to four interrelated questions:

1. Who plays? Players constitute the agents that make government's decisions and take government's actions. They are men that occupy official governmental positions, and these positions define what players can and should do as well as their advantages and handicaps in bargaining games.
2. What determines each player's stand? Goals, interests, preferences and perceptions – in terms of organizational, domestic or personal – essentially determine players' desired outcomes.
3. What determines each player's relative influence? Power. The power of exerting effective influence in government's decisions and actions has a variety of sources: formal authority and responsibilities (derived from positions); effective control over resources necessary to carry out an action; expertise and control over information required for understanding problems and adoption of viable solutions; control over information that enables chiefs to decide on an action and implement it and; personal persuasiveness drawn from personal relations, for instance.
4. How are players' stands, influence, and moves combined to yield governmental decisions and actions? A government's action on a specific issue takes place through regularized action-channels. Issues are recognized and determined within an established channel – a governmental department, agency or bureaucracy – for producing action. Players within action-channels operate according to rules stemmed

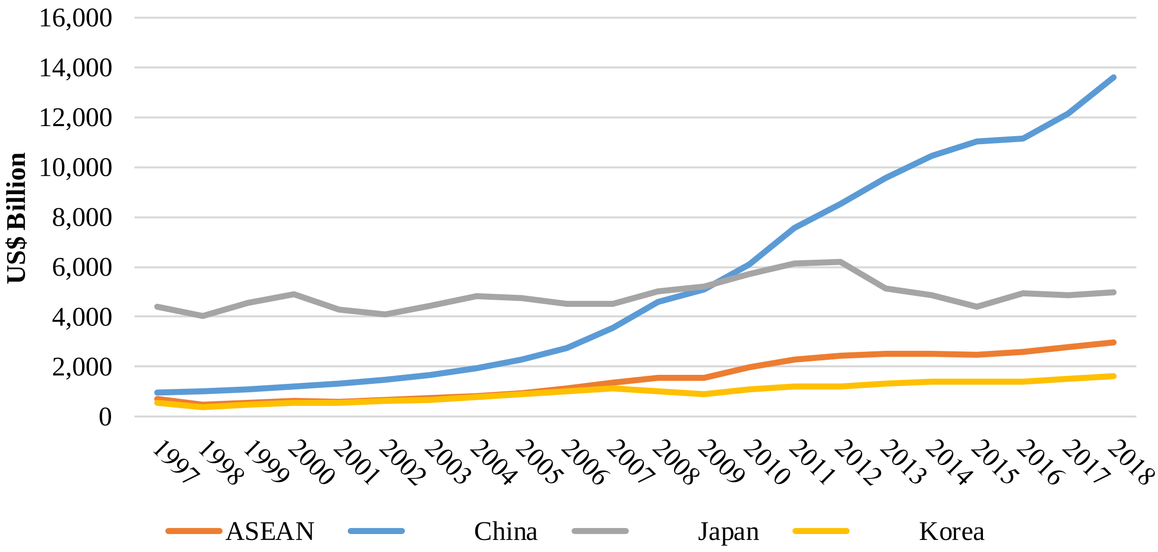
from the Constitution, statutes, court interpretations, executive orders, conventions, etc. Rules establish the positions, the power of each position and the range of government's decisions and actions that can be taken by a government department.

To summarize, the Bureaucratic Politics Model focuses on interaction among bureaucratic players involved in bargaining games and competing preferences. The outcomes of foreign policy making are understood in terms of bureaucratic competitiveness and disputes over sectional or factional rather than individual interests, calling for an examination of the interaction of individuals within their organizational environments. The Model's explanatory power is achieved by revealing the domestic political process – action-channels, positions, players, players' preferences, interests and power – that results in government's decisions and actions (Allison & Zelikow, 1999).

3.3 Analytical Approach to CMIM Case Study

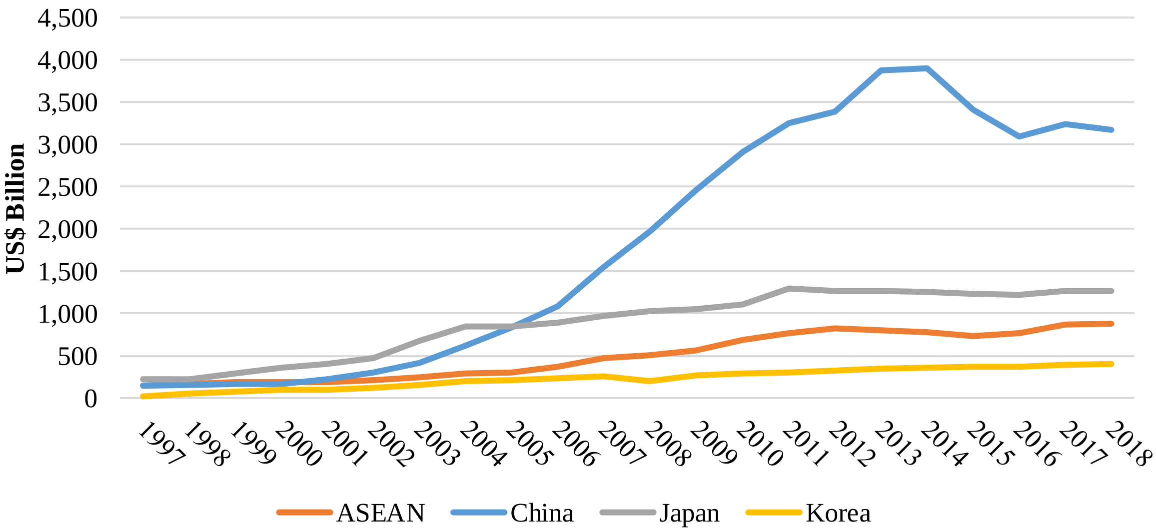
In this chapter, the analysis focuses on the role of China and Japan. As the main creditor countries, with the largest financial contributions to the arrangement, they are crucial in defining the CMIM's institutional design. RFAs can be considered international public goods since only few states – the creditor countries – can support their implementation costs. In East Asia, Japan and China as the most powerful and richest countries in the region have borne most of the costs and risks of the CMIM and, in return, have ensured the prerogative of shaping its institutional design to protect their interests and reduce their exposure to risks (Grimes, 2015; Kindleberger, 1981; Olson, 1971). China and Japan are the biggest economies among ASEAN+3 countries (Graph 1) and accumulate the largest amounts of foreign exchange reserves (Graph 2). In terms of trade and investments, China exhibits the most significant volume of exports (Graph 3), imports (Graph 4) and FDI inflows (Graph 5), and Japan appears as the main investor country abroad (Graph 6). As illustrated in Table 6, China has increased its shares in intra-group trade (total trade of ASEAN+3 economies) and world trade, accounting, in recent years, for the lion's shares of intra-group trade. Japan occupied a dominant position of shares in intra-group trade and world trade in the late-1990s but has reduced its shares in comparison to China and ASEAN. Regarding the shares of FDI, among the ASEAN+3 countries, Japan has maintained the largest share of world FDI outflows, and China, since the late-2000s, has been sharing with ASEAN the largest amounts of word FDI inflows.

Graph 1: ASEAN+3 GDP



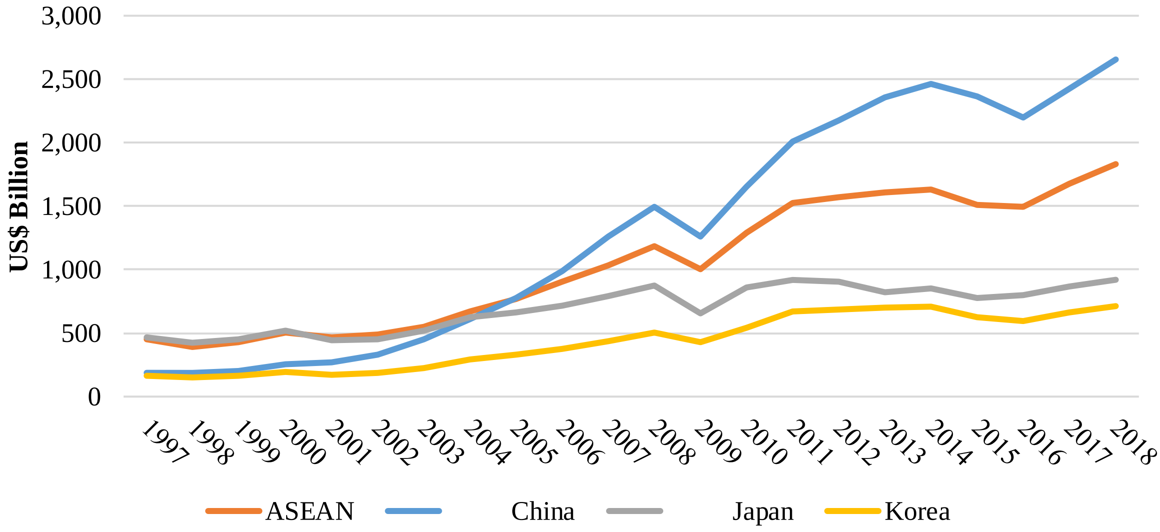
Source: World Bank. GDP current US$.

Graph 2: ASEAN+3 Foreign Exchange Reserves



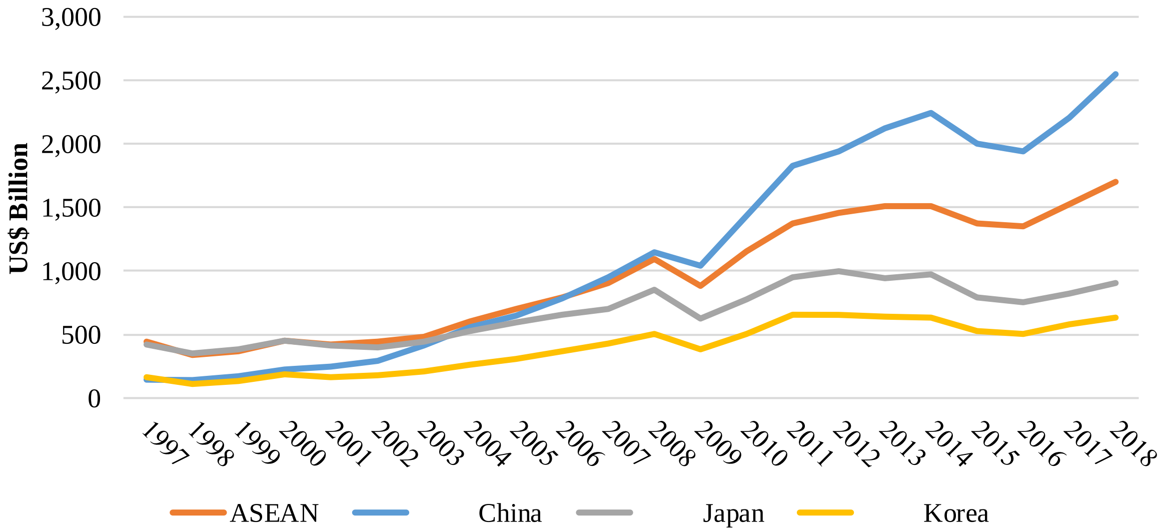
Source: World Bank. Total reserves (includes gold, current US$).

Graph 3: ASEAN+3 Total Exports



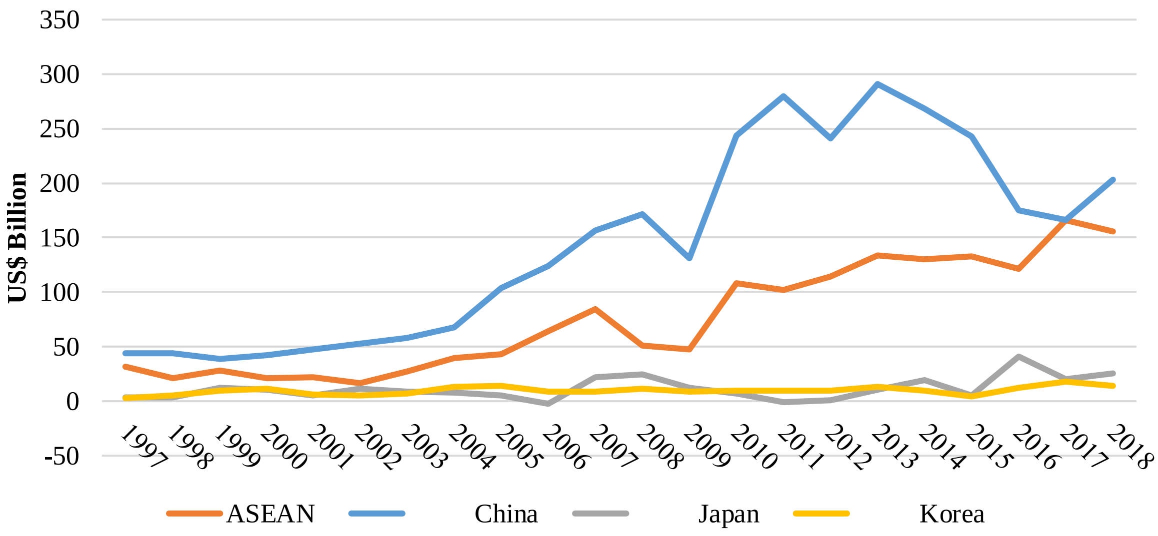
Source: World Bank. Exports of goods and services (current US$).

Graph 4: ASEAN+3 Total Imports



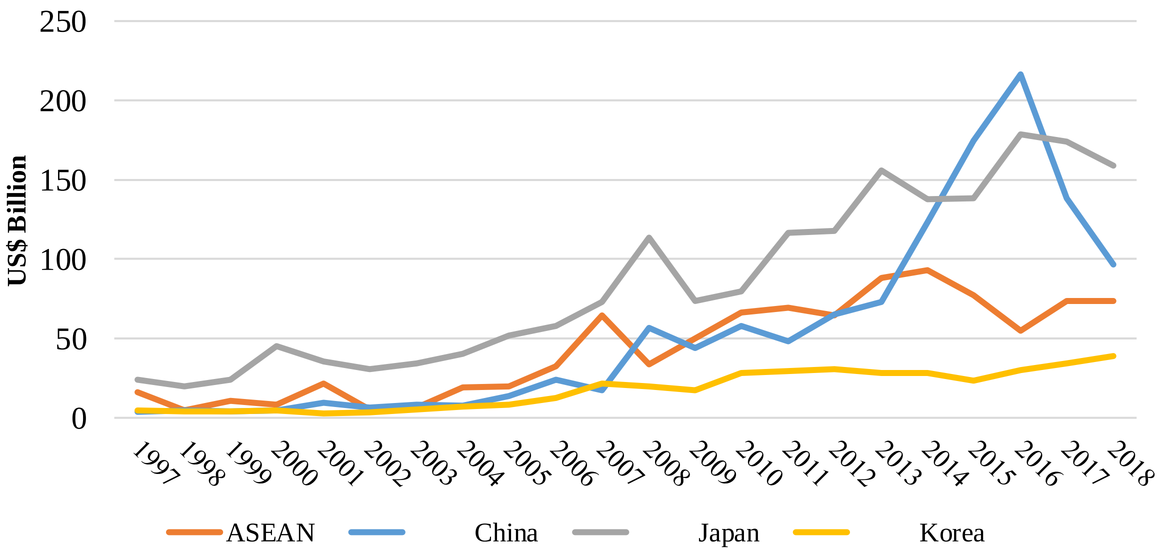
Source: World Bank. Imports of goods and services (current US$).

Graph 5: ASEAN+3 FDI Inflows



Source: World Bank. Foreign direct investment, net inflows (BoP, current US$).

Graph 6: ASEAN+3 FDI Outflows



Source: World Bank. Foreign direct investment, net ouflows (BoP, current US$).

Table 6: ASEAN+3 Shares of Trade and FDI (%) – Intra-Group and World

Shares of Trade and FDI (%)	China					Japan					Korea					ASEAN				
	1997	2002	2007	2012	2017	1997	2002	2007	2012	2017	1997	2002	2007	2012	2017	1997	2002	2007	2012	2017
Share of Imports (ASEAN+3)	14.13	25.49	35.21	40.85	43.34	33.65	29.12	22.91	19.90	15.78	14.37	13.14	13.14	11.67	11.25	32.84	28.36	28.54	27.48	29.59
Share of Exports (ASEAN+3)	16.70	24.87	38.51	44.00	46.66	38.46	31.83	22.54	17.15	14.40	12.44	12.41	11.72	11.77	11.83	27.37	26.60	27.30	26.92	27.14
Share of Imports (World)	2.50	4.43	6.72	9.75	10.26	5.96	5.06	4.37	4.75	3.73	2.54	2.28	2.51	2.79	2.66	5.81	4.93	5.45	6.56	7.00
Share of Exports (World)	3.26	5.01	8.70	11.07	12.76	7.52	6.41	5.09	4.31	3.94	2.43	2.50	2.65	2.96	3.24	5.35	5.36	6.17	6.77	7.42
Share of FDI Inflows (World)	9.41	8.94	4.42	8.23	8.95	0.67	1.57	1.19	0.12	0.70	0.69	0.93	0.47	0.65	1.20	6.49	2.72	4.15	7.62	9.63
Share of FDI Outflows (World)	0.55	0.51	1.22	6.87	11.10	5.58	6.50	3.39	9.59	11.26	0.95	0.69	1.01	2.40	2.39	3.36	1.00	2.97	4.55	4.97

Source: UNCTAD (https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx)

The analytical approach proposed here for the CMIM case study follows the concepts of Allison's Bureaucratic Politics Model presented in the four questions-answers detailed above. First, I identify who are the domestic agents – players – actively involved in the developments of the CMIM and why. After, I demonstrate the relative influence and the regularized action-channels by which these agents affect governments' decisions and actions. For that, I base my argument on the concept of power and investigate the different sources of power that enable agents to influence or produce an effect in policymaking. Then, I delineate players' stances in terms of their preferences regarding the CMIM's institutional design. Finally, according to what FPA scholars propose, I add a new component to the model: systemic conditions. When orientated to a specific task, players' preferences, interests and intentions become strategic actions that occur within a structured setting. The structure does not determine outcomes directly but constrains actors by defining the range of options and strategies that can be adopted. In this sense, I point out what are the constraints that the structure has imposed to agents involved in the institution-building process of the CMIM on the basis of propositions made by RDI literature.

3.3.1 Domestic Agents and Power

I examine the role of the ministries of finance and the central banks from China and Japan in shaping states' preferences and foreign policy decisions with respect to the CMIM's institutional design. Within state institutional structure, the ministry of finance and the central bank are the government units in charge of international negotiations involving emergency financing and financial and monetary policies. They are the central actors of regional monetary and financial cooperation in East Asia, being the ASEAN+3 Meetings of Ministries of Finance and Central Bank Governors the political forum from where the CMIM has emerged. As ministry of finance and central bank perform similar social functions – to formulate policies that ensure macroeconomic and financial stability – their political territories are overlapped in policy space. In such sense, they compete for power to influence policymaking and thus to safeguard their respective interests and ultimately their survival. The possibility of enlarging their political territories by expanding their social functions, such as shaping foreign policies, increases the competition between these bureaucracies as well as impacts on the outcomes of international negotiations (Downs, 1967; Duran, 2017).

The ability of these domestic agents to influence regional policies depends on how much power each bureaucracy owns to shape policymaking, or in other words, how some preferences of policies prevail at expenses of others. Based on the analysis of different sources of power – *de jure* and *de facto* – I argue that, in Japan, the ministry of finance and, in China, the central bank have played the central role in institutional developments of the CMIM. I demonstrate the *de jure* power of these government units on the basis of their legal mandates to manage foreign exchange reserves and formulate and implement policies of international cooperation and financial stability. These functions are directly related to the CMIM since the funds of emergency loans derive from members' international reserves, and the regional arrangement was conceived as a regional financial stability policy. *De facto* power is associated with the concept of autonomy.[48] The political power can also be determined by factors other than formal rules such as informal arrangements, actual practices, expertise, reputation, personality of key staff, etc (Cukierman, 1992). I explore how these elements have constituted sources of power for Japanese ministry of finance and Chinese central bank to influence the CMIM's informal institutional design.

Japan

De Jure Power

The Bank of Japan (BOJ) was founded in 1882 as the central bank of Japan through the issue of the Bank of Japan Act. The 1882 Act was replaced in 1942 and fully revised in 1997. The new Act was enforced on April 1, 1998, under the principles of autonomy, independence and transparency of bank's monetary policy and business operations (BOJ, 2011). However, before that, the Ministry of Finance (MOF) retained full control over BOJ's activities. The MOF was profoundly involved in the creation of the BOJ, being the MOF's Administrative Vice Minister, Matsukata Masayoshi, the leader of the initiative for the establishment of the central bank. As a result, the institutional framework built for the BOJ – the 1882 and the 1942 BOJ Acts – privileged its formal dependence on the MOF and embedded it in the government system. The main BOJ's executives – governor, vice governor, executive directors, auditors and advisors – were appointed or subjected to the approval of the MOF, which also controlled the bank's budget, established guidelines for policies and should approve a wide range of operations, including monetary policies (Henning, 1994; Kawakita, 1995; Suzuki, 1996).

[48] Some scholars that have analyzed the concept of central banks' independence distinguish 'autonomy' and 'independence'; the former entails operational freedom, while the latter implies lack of institutional constraints (Laurens, Arnone & Segalotto, 2009).

Overall, the MOF had great power over the central bank and controlled the policymaking of economic policies in Japan. Tax management was under the National Tax Agency, a MOF's affiliate agency; the MOF's budget bureau was responsible for the government budget; international financial operations, such as interventions on foreign exchange market and monitoring of international capital flows, were conducted by the MOF's international finance bureau; the issuance of government securities was made by the MOF's finance bureau and; the banking sector was supervised by the MOF's banking bureau (Cargill, Hutchison & Itô, 1997).

The dominance of the MOF over the BOJ virtually persisted unaltered until the review of the BOJ's Act in 1997. Although the new law has promulgated the *de jure* independence of the bank, the MOF has maintained a direct involvement and control over BOJ's policy decision-making on the basis of older patterns. This was possible, because the process of the Act's revision was carried out by a study group – the Financial System Research Council – operated and led by the MOF. An informal committee appointed by the Prime Minister and composed by 6 scholars and 2 business people – the Central Bank Study Group – was in charge of reviewing the law and providing the general ideas and direction of central bank's reform, but the task of elaborating and recommending the specific legislation was delegated to the MOF's Council (Miller, 1996). By examining the current law – the 1997 BOJ Act – we observe that the MOF retains significant control over the BOJ with the right to:

- Be informed of the bank's activities.

'*The Minister of Finance or the Prime Minister may, when he/she finds it necessary in light of the conditions of the business operations of the Bank of Japan, request the Bank to submit a report or relevant materials*' (Article 58).

- Insist that the bank's monetary policy initiatives be harmonious with the policies of the government and ultimately MOF's policies.

'*The Bank of Japan shall, taking into account the fact that currency and monetary control is a component of overall economic policy, always maintain close contact with the government and exchange views sufficiently, so that its currency and monetary control and the basic stance of the government's economic policy shall be mutually compatible*' (Article 4).

- Attend to Policy Board[49] meetings, without voting power, make proposals and force the delay of a decision.

'*The Minister of Finance...may, when necessary, attend and express opinions at Board meetings for monetary control matters, or may designate an official of the Ministry of Finance…to attend and express opinions at such meetings*' (Article 19).

'*The Minister of Finance, or a delegate designated by him/her,…, when attending the Board meetings for monetary control matters, submit proposals concerning monetary control matters, or request that the Board postpone a vote on proposals on monetary control matters submitted at the meeting until the next Board meeting for monetary control matters*' (Article 19).

- Demand an audit of the bank and receive the audit results.

'*The Auditors shall audit the business of the Bank of Japan*' (Article 22).

'*The Auditors may, when they find it necessary based on the audit results, submit their opinions to the Minister of Finance, the Prime Minister, or the Board*' (Article 22).

'*The Minister of Finance or the Prime Minister may, when he/she finds that the Bank of Japan, its officers or employees have violated or are likely to violate this Act, other laws and regulations, or articles of incorporation, request the Auditors of the Bank to audit such acts and other necessary matters and report the results thereof to the Minister of Finance or the Prime Minister*' (Article 57).

- Monitor the bank's formal communications with the Diet.

'*The Bank of Japan shall, approximately every six months, prepare a written report on the Policy Board resolutions regarding the matters listed in the items of Article 15, paragraph 1 and conditions of business operations that the Bank has conducted based thereon and submit it to the Diet through the Minister of Finance*' (Article 54).

- Approve bank's budget and financial statements.

'*Every business year, the Bank of Japan shall make a budget for expenses (limited to those specified by a Cabinet Order as not hampering the currency and monetary control; hereinafter such budget shall be referred to as a "budget for expenses"), and submit it to the Minister of Finance for authorization before the business year begins. The same shall apply when making any change to the budget*' (Article 51).

[49] The Policy Board is the highest decision-making body concerning bank's activities. It is composed by the bank's Governor and two Deputy Governors and other six members appointed by the Cabinet with relevant knowledge and experience in economy and finance issues (Articles 16 and 23 of 1997 BOJ Act).

'*The Bank of Japan shall prepare an inventory of property and a balance sheet for each six-month period running from April through September and from October through March and prepare a profit and loss statement for each business year as well as for each six-month period mentioned above, and submit these documents…attached with Auditors' written opinions thereon to the Minister of Finance for approval within two months after the relevant six-month period or the business year has elapsed*'(Article 52).

- Appoint officers.

'*The Executive Directors and the Counsellors shall be appointed by the Minister of Finance based on the Board's recommendation*' (Article 23).

- Order the bank to comply with remedial measures.

'*The Minister of Finance or the Prime Minister may, when he/she finds that the Bank of Japan, its officers or employees have violated or are likely to violate this Act, other laws and regulations, or articles of incorporation, request the Bank to take the measures necessary to rectify such acts*' (Article 56).

Regarding financial issues, the control of the MOF over the BOJ resembles the one observed in the provisions detailed above. Relevant decisions are taken by the MOF and the BOJ acts only as an agent of the Ministry, implementing policies. Although Article 1 of the BOJ's Act establishes that one of the bank's purposes is the maintenance of financial system stability, the central bank engages mainly in surveillance activities, such as on-site examinations and off-site monitoring of financial institutions,[50] and macroprudential analyses to assess systemic risks[51] (BOJ, 2011). Strategic measures related to intervention in domestic financial market are managed by the MOF. For instance, the Article 38 of the BOJ Act sets out that the MOF should evaluate whether serious problems may threaten national financial stability and, when it finds necessary, requires that the BOJ conducts the business necessary to the maintenance of stability of the financial system such as acting as national lender of last resort. As such, the central bank may only provide loans to financial institutions experiencing a temporary shortage of liquidity upon request of the Prime Minister and the MOF. The MOF also decides on interventions in the foreign exchange market. When it deems necessary to

[50] In on-site examinations, the bank visits the offices of financial institutions that hold current accounts at the bank, and in off-site monitoring, it analyzes various documents on financial institutions' business activities and interviews their executives and staff members (BOJ, 2011).
[51] The BOJ uses the results of the risk analysis and assessment for conducting various policies, and these results are published in the Financial System Report (BOJ, 2011).

intervene in the foreign exchange market because of rapid fluctuations in the yen, it instructs the bank to intervene. The BOJ provides the MOF with the latest market information relevant for making decisions on intervention. Based on this information, the MOF gives the bank specific instructions for the intervention (BOJ, 2011). A similar mechanism is applied in case of the two issue-areas related to the CMIM – management of foreign exchange reserves and international financial cooperation. The government's foreign-currency assets held by the MOF in the Foreign Exchange Fund Special Account (FEFSA), together with other foreign-currency assets held by the BOJ, make up Japan's foreign exchange reserves. The management of international reserves are shared between the MOF and the BOJ, but the funds in the FEFSA are often used in international operations such as intervention in foreign exchange market to secure the stability of the yen (BOJ, 2011). In addition, the central bank may cooperate in the field of international finance by providing credit to foreign central banks or international institutions, at the request, or upon the approval of the MOF (Article 42, 1997 BOJ Act). The BOJ '*conducts the buying and selling of foreign exchange for the purpose which the Minister of Finance specifies as constituting cooperation in the field of international finance, at the request, or upon the approval of the Minister of Finance*' (Article 40, 1997 BOJ Act).

As we can see, the legal framework has put the MOF in a dominant position regarding the policymaking and implementation of foreign policies related to international financial cooperation and has pushed the BOJ to assume a more technical and operational role in global and regional governance. The bank coordinates and cooperates with other central banks and financial supervisory authorities by gaining consensus and exchanging opinions on financial system issues. It participates in international forums, such as the G20, the G7, the meetings at the Bank for International Settlements (BIS), the Financial Stability Board (FSB) and the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) with the main purpose of contributing to the formulation of standards and guidelines on international finance by making proposals based on its research, analysis and findings from discussions with financial institutions. Concerning regional monetary and financial cooperation in East Asia, the BOJ, in November 2005, established the Center for Monetary Cooperation in Asia (CeMCoA) in order to further monetary and financial cooperation in the region by strengthening technical cooperation and staff training and conducting joint researches.[52] In Asia, the central bank regularly sends members of its staff to central banks overseas and organizes seminars and

[52] In June 2014, the CeMCoA was replaced with the International Coordination Division under the International Department (BOJ, 2011).

workshops to share its knowledge and expertise regarding central bank operations. For instance, in the period of 2003-2006, from a total of 337 activities involving technical assistance and cooperation in other countries, 305 were conducted in Asian countries. Additionally, the BOJ, the People's Bank of China and the Bank of Korea, in 2009, agreed on strengthening the framework for communication on economic and financial developments in East Asia through the establishment of the Annual Tripartite Governors' Meeting, another dialogue forum that aims to contribute to economic and financial stability in the region (BOJ, 2011; BOJ Annual Review Reports 2005-2018).

De Facto Power

The sole analysis of legislation and other legal rules is not sufficient to obtain a complete understanding of bureaucracies' power of influence. Non-official arrangements between bureaucracies and the government, expertise, personal characteristics of key individuals are some examples of informal sources of power that can improve the ability of government agencies to influence government policies. To understand the nature of the MOF's *de facto* power, it is necessary to examine the political disputes between the BOJ and the MOF, which goes back from the BOJ's origins.

The 1942 BOJ Act was shaped to impose unconditional authority of the government and the MOF over the central bank. To cite, the MOF had the right to recommend the BOJ's next governor,[53] monthly meetings was held between the two agencies and a complex consultation process and consensus-building among the BOJ, the MOF and the government was required for decisions about monetary policy. In such decision-making process, the MOF played a pivotal role. The BOJ had to mobilize the support from the MOF's bureaucrats for the bank's policy proposals since the MOF's close ties with the Cabinet could ensure the approval and implementations of polices (Henning, 1994).

Two attempts to review and modify the central bank's law failed in the late 1950s and in the mid-1960s. In 1965, after the admission of Japan in the IMF, the BOJ's governor Yamagiwa reopened the debate about the bank's reform, but the submission of the revised law for Diet's approval was delayed due to disagreements on the content of the law between the MOF and the BOJ. While the central bank sought for more independence in its operations, the Ministry

[53] Since the late 1960s, BOJ's governance has been characterized by a well-established pattern in which the position of bank's governorship is alternatively occupied by a high-ranking official from the MOF and an official from the central bank (Iwata, 2009; Motoyoshi, 2006).

struggled to maintain its wide control over the agency (Takahashi, 1997; Mikitani & Kuwayama, 1998). According to Dwyer (2004), the strong alliance between the MOF and the government, particularly the Liberal Democratic Party (LDP), impeded the revision of the BOJ's Act.

In the 1990s, fundamental changes in domestic politics, especially in the relationship of MOF-LDP, pushed reforms in financial sector that culminated in the revision of the BOJ's Act. The LDP dominated the Japanese government from 1955 to 1993 when LDP's politicians have built a tight and stable cooperation with the MOF's bureaucrats. Due to this collaboration, the MOF has become the most powerful ministry, playing a central role in shaping the Japanese economic system. The MOF has developed high-level expertise on economic issues and has used its information control and proximity to the LDP to shape Party's preferences and strategies and so to influence policy decision-making (Saitô, 1996; Katô, 2002; Nemoto, 2002; Hori, 2005; Muramatsu & Scheiner, 2007). In 1993, the loss of LDP's majority in the Lower House led to a change in politics and in relations of the Party with bureaucracies. The mutual cooperation between the MOF and the LDP deteriorated significantly, because the Ministry decided to cooperate and support the opposition parties, which controlled the government, in order to hold its power and influence over economic issues (Mabuchi, 1997).

However, when the LDP emerged again as the most powerful party in 1994, politicians opted to not restore the relationship with the MOF as before. In 1995, economic conditions in Japan worsened due to financial problems associated with the collapse of financial institutions and the large accumulated amounts of non-performing loans (Hiwatari, 2000; Nakasô, 2001). As the MOF was in charge of the management and supervision of financial system, the LDP adopted a 'blame shifting strategy', attacking the MOF for economic problems and corruption scandals and agreed to support, together with two other parties (Social Democrat Party and New Party Sakigake), a reform of the Ministry and a revision of the BOJ's Act (Grimes, 2001; Hiwatari, 2000; Mabuchi, 1997; Cargill, Hutchison & Itô, 2000). Moreover, the electorate was no longer convinced that the LDP could resolve country's economic difficulties and claimed for an organizational restructuring of the MOF amid severe criticisms to the bureaucracy (Amyx, 2000). Therefore, the LDP decided to advocate for a financial reform that would alter the power distribution between the MOF and the BOJ to ensure most of the seats in next elections – LDP lost the majority in the Lower House in 1996 elections – and thus the Party's political survival (Curtis, 2002; Dwyer, 2012). Although not fully consenting to the proposal of altering the BOJ's Act, the MOF sought to shape the process and the final outcomes in favor of its interests (Kanegae, 1996). The MOF tried to indicate some of its members to integrate the Central Bank Study Group that was responsible for preparing a report[54] about the guidelines on the reform to submit to the Prime Minister Ryutaro Hashimoto (January 1996 – July 1998) (Volz & Fujimura, 2008). Although the Ministry was not successful in influencing BOJ's reform through the Central Bank Study Group, the Financial System Research Council, a MOF's consultative body, was tasked to review the recommendations of the Study Group and propose the final legislation text of the BOJ's Act (Miller, 1996; Grimes, 2001; Amy, 2000). As detailed in the previous section, the MOF succeeded in maintaining its power over some issues and activities of the central bank such as financial policies and annual budget.

Overall, the extensive *de facto* power of the MOF stems from its close relations with the LDP. Since the end of the World War II, domestic politics has been characterized by a remarkable stability based on the political dominance of the LDP in the government. This political dominance has favored the rise of MOF's power over the policymaking in economic field, because the LDP has imparted significant control of economic and financial policies to the Ministry. As such, personal contacts have been continuously built between the MOF's officials and senior LDP's politicians, creating a mutually dependent relationship that has preserved the privileged status of both the MOF and the LDP in Japanese politics (Muramatsu & Scheiner, 2007).

China

De Jure Power

In China, the power configuration of authoritarian regime is highly centralized and hierarchical. The political leadership is concentrated in the Chinese Communist Party's (CCP) Politburo composed by 20 to 30 members. The Politburo determines the general programs and political guidelines of Chinese policies and appoints the top personnel for the Party, government and military force. The highest and central decision-making body is the Politburo's Standing Committee, which is a smaller group composed by less than 10 key leaders and headed by the Party's general secretary. The State Council is the central cabinet of the party-state in charge of policy implementation and execution of programs and strategies defined by the Politburo. It is an administrative body composed by 10 members and headed by the Prime Minister (4 vice-

[54] Reform of the Central Bank System: In Pursuit of Open Independence (The Central Bank Study Group, 1996).

prime ministers and 5 state counselors), who supervises and coordinates all ministries and other institutions directly linked to the executive power (Lieberthal & Oksenberg, 1988). In the economic and financial fields, three executive institutions are responsible for policies: the National Development and Reform Commission (NDRC), the Ministry of Finance (MF) and the People's Bank of China (PBC). The NDRC is the most prominent government agency, responsible for supervising and managing a large part of the economic portfolio and formulating a number of economic policies such as the 5- and 10-years economic plans. The MF executes fiscal policies and administers the national budget and government expenditures.[55] Monetary policy and regulation of money markets and interest rates are primarily executed by the PBC, and other state agencies regulate and supervise banking, insurance and securities sectors[56] (Bell & Feng, 2013).

The PBC was established on December 1, 1948 and, in its origins, it performed a mix of functions of central bank and commercial bank. It had the monopoly of issuance of national currency (renminbi/RMB) and executed the management of government accounts, transaction settlement, deposit collection, short-term corporate lending and foreign exchange management. In this period, the legacies and constraints of the economic planning system limited the development of monetary policy and the PBC's role in macroeconomic management. The PBC had a lower and marginal status in comparison to other ministries and functioned merely as an agent of the MF[57] and the central planning apparatus (Guo, 2002; Saez, 2003). This scenario persisted along the first reform era (1978-92) marked by the gradual incorporation of market elements to the planning regime and the creation of a plan-market hybrid system. At that time, the State Council granted ministerial status to the PBC, when it approved its separation from the MF in 1978, and officially announced the PBC as the Chinese central bank in 1983, transferring its commercial functions to the Big Four state-owned banks: the Agricultural Bank of China, the Bank of China, the China Construction Bank and the Industrial and Commercial Bank of China. The PBC's authority nevertheless remained profoundly constrained by the central government, which dictated the agenda and guidelines of monetary policy through the State Council. The lack of expertise in carrying out the transition of the Chinese economy from an economic planning system to a more market-oriented and regulatory framework undermined the development of the PBC as a reliable institution in which the political leadership could base

[55] http://www.mof.gov.cn/index.htm. Accessed on 10 February 2019.
[56] China Banking Regulatory Commission, China Insurance Regulatory Commission and China Securities Regulatory Commission.
[57] Between 1968-77, the PBC was a department that operated within the MF (Bell & Feng, 2013).

its decisions (Bell & Feng, 2013). The implementation of policies in the first reform era was strongly regulated by the state and, within the Chinese party-state, the MF and the State Planning Commission (the old NDRC) held much more power to influence the policymaking (Shirk, 1993, 1996; Liew, 1995; Naughton, 2008).

The crisis context of the late 1980s and early 1990s (inflationary pressures, over-lending, excess of local investments and social unrest) pushed the substitution of the old conservative political elite for a new generation of reformist politicians led by Jiang Zemin (Party's general secretary, 1989-2002) and supported by Zhu Rongji (vice premier 1991-98; premier 1998-2003), who accelerated market transition through the adoption of more market-oriented policies and reforms. This restructuring of power within the Party's leadership has contributed to foment the rise of PBC's authority in the party-state regime. During the second reform era (1992-2011), Chinese leaders faced new challenges associated with market pressures to implement, virtually from out of nowhere, a market-oriented economic system and create an institutional infrastructure and a regulatory framework that would fit better for a more market-oriented economy. As such, this economic transition altered the manner that the economy was managed, from a mandatory central plan to more flexible arrangements based on market-oriented macroeconomic management, favoring more market-oriented institutions such as the PBC, which has increased its political power due to its expertise and capacity to deal with unusual monetary and financial issues (Dai, 1998).

The PBC Law adopted at the Third Session of the 8th National People's Congress on March 18, 1995 confirmed the legal status of the PBC as the Chinese central bank.[58] Despite the legal mandate to conduct monetary and financial policies, the PBC's *de jure* power is limited, and the bank is not authorized to perform its functions on a fully independent basis. On the one hand, the Article 7 of PBC's Law ensures that the central bank '*shall implement monetary policies, perform its functions and carry out its business operations independently according to law and be free from intervention by local governments, government departments* (such as the MF and the NDRC) *at various levels, public organizations or individuals*'; and Article 37 sets out financial autonomy to the bank to '*exercise independent control over its financial budget*', reducing any potential intervention from the MF in the PBC's budget and expenditures. On the other hand, monetary policy is deeply enmeshed in the intense bureaucratic politics of the Chinese party-state, which implies bureaucratic conflicts in

[58] The Law was amended and adopted at the 6th Meeting of the Standing Committee of the Tenth National People's Congress on December 27, 2003.

policymaking among the PBC, the MF and the NDRC, and key policy decisions, such as changes in interest rates and foreign exchange rates, are in the hands of the State Council and ultimately the CCP's leadership. [59] The bureaucratic process functions as follows: (i) the PBC presents a policy proposal to the State Council that circulates it among the relevant bureaucratic peers for discussion and review; (ii) an internal process of consensus building is supervised and guided by the vice premier of finance or directly by the premier in the State Council; (iii) when consensus is achieved, the policy is formally approved at the executive meetings of the State Council and implemented by the PBC (Article 5, 2003 PBC Law; Bell & Feng, 2013). In addition to the formulation and implementation of monetary policies, national and international financial policies are also under the control of the PBC. The Bank has the legal mandate to '*guard against and eliminate financial risks and maintain financial stability*'; '*to exercise control of foreign exchange and supervise and administer the inter-bank foreign exchange market*'; '*to hold, administer and manage the State foreign exchange reserve*'; and '*to engage in relevant international banking operations in its capacity as the central bank of the State*' (Articles 2 and 4, 2003 PBC Law). The management of foreign exchange reserves, gold reserves and other foreign exchange assets of the state are carried out by the State Administration of Foreign Exchange (SAFE), an administrative agency that functions as a bureau under the PBC.[60]

De Facto Power

Although the Decree of 1983, which has formalized the PBC's status as China's central bank, and the PBC Law of 1995 have not conferred formal independence to the bank, they have fomented, together with the economic reforms, the PBC's authority and institutional insulation from local governments and rival agencies such as the MF and the NDRC. Since the late 1990s, the PBC has been increasing its reputation within the Chinese party system and has been playing a central role in economic policymaking. As the Chinese state has gradually transformed from a central planning state, in which the state apparatus was used to control national economy through a centralized administrative system, to an emerging market-oriented regulatory state (Pearson, 2005; Yang, 2004), there has been a change towards a greater dependence of

[59] The PBC Law establishes that the central bank has full autonomy in deciding matters of monetary policy other than key issues.

[60] For more details on SAFE, please see: http://www.safe.gov.cn/en/ / http://www.safe.gov.cn/en/2010/0702/936.html.

regulatory institutions legally mandated and with professionalism to implement and supervise market-oriented undertakings. This context has contributed to the rising of a new generation of market-related state agencies, such as the PBC, at the expenses of the old planning apparatus. During the economic transition, the central bank was innovative in blending and melding imported policy ideas with local policy traditions, building and strengthening its own expertise and institutional capacities, obtaining support from the CCP and establishing dependence relations with the Party's leadership (Bell & Feng, 2013).

According to Max Weber, a notable institutional feature of modern bureaucracy is its functional specialization. Expertise and knowledge are important sources of bureaucratic authority, and information is a valuable resource that each agency attempts to monopolize. Bureaucrats who occupy key positions in policymaking have more power to influence final policies. In China, the fragmented structure of bureaucracy has produced high-specialized bureaucratic units that became powerful and influential within their policy spheres. Traditionally, Chinese political leaders have lacked the necessary information and expertise to make decisions about best policies and thereby have permitted bureaucracies to become increasingly influential. By crafting and filtering information and ideas selectively to shape elite's preferences, choices and agendas, Chinese bureaucracies have ensured the formulation and implementation of policies according to their interests (Lieberthal & Lampton, 1992; Halpern, 1992). With respect to complex economic areas, such as monetary and financial policies, the Chinese political elites have conferred recommending and policymaking power to the PBC, especially after the 1997 financial crisis, when the central bank assumed the domestic financial and monetary restructuring processes, which led to an extensive structural change both in Chinese economy and politics. The economy has gradually become more market-orientated, and the prominence enjoyed by traditionally powerful agencies, such as the NDRC and the MF, has been replaced with the central bank's macroeconomic management. Throughout the years of reforms, the PBC has developed and improved its institutional capacities – professionalism,[61] expertise and policy instruments – enhancing, thus, its autonomy or *de facto* power. The PBC has achieved a kind of 'technical independence' from the Party's leadership either by deliberately limiting policy options to be presented for the State Council to one or two, or, in many occasions, by being the proposal originator of policies (Hamrin & Zhao, 1995; Xie, 1995; Feng, 2006; Bell & Feng, 2014).

[61] The PBC's professionalism is presented in the systemic efforts of recruiting and training high-level personnel from academia, especially those who have Western educational backgrounds (Bell & Feng, 2013).

Personal relationships between the CCP's leaders and top bureaucrats form another important source of *de facto* power for Chinese bureaucracies. Top government officials are appointed and promoted by the Party's elites, and the Party's leaders rely on the support of bureaucratic executives to enlarge their power base in political competitions (Shih, 2004, 2008). From the point of view of the PBC, the support of the CCP is essential for furthering market-oriented reforms and increasing the authority of the central bank in economic policymaking. The PBC's status was significantly boosted within the party-state system when Zhu Rongji took on the PBC's governorship in 1993. Zhu was vice premier at that time and later became premier and number three in the Party. Since the PBC's governor is appointed by the Party's elites, governor's future career developments are ultimately determined by the performance of the institution. In such sense, rising the authority of central bank was a vital strategy for Zhu to ensure his political success. He was widely recognized as a market-oriented economic reformist and initiated a series of institutional reforms in the bank, making it more immune to the influence from other government agencies and local governments and promoting a number of like-minded younger generation of technocrats. After becoming China's Premier, in 1998, Zhu maintained close relations with the central bank and his successors, which helped to foster the proximity between the PBC and the CCP and promote the PBC's status within the Party center. These personal relationships were maintained in the next PBC's governorships of Dai Xianglong (1995-2002) and Zhou Xiaochuan (2002-2018). In case of Zhou, he was a party heavyweight with close ties with both Jiang-Zhu administration and Hu-Wen regime. Wen and Zhou developed a singular relationship in which Wen effectively delegated authority and power decision to Zhou. Therefore, after Zhou assumed the PBC's governorship in early 2003, a blueprint for an economic and financial reform was initiated. To illustrate the growth of the PBC's empowerment, I present below some financial and monetary policies implemented by the central bank that show how it has assumed a leading role in the Chinese economic policymaking, particularly since 2003, *vis-à-vis* the decrease of the MF's influence (Bell & Feng, 2013).

Before the 1997 Asian financial crisis, the MF used to be considered the owner of the banking system, being responsible for the operational management of the Big Four state-owned banks (SOBs) – the Agricultural Bank of China, the Bank of China, the China Construction Bank and the Industrial and Commercial Bank of China. In 1998, however, the MF failed to bail out the Big Four through fiscal injections, paving the way for a new reform approach proposed by the PBC in 2003. Basically, the PBC convinced the Party's leaders to use China's foreign exchange reserves to recapitalize the SOBs, designing an innovative road map for banking system reform. In case of the China Construction Bank and the Bank of China, the PBC injected US$ 45 bi of reserves into these banks in 2004 through the Central Huijin Investment Company,[62] becoming their principal shareholder. After massive capital injections and cleaning of banks' balance sheets – non-performing loans were transferred to Asset Management Companies – the PBC engaged in attracting foreign strategic investors for equity investments so that the SOBs could gain management expertise and market confidence.[63] The next step was to list the China Construction Bank and the Bank of China in stock markets. Their IPOs successfully occurred in 2005 and 2006 respectively. The same reform strategy was applied to other banks and, by October 2005, 19 foreign institutions invested in 16 Chinese banks with a total capital of over US$ 16.5 bi. Additionally, to support bank reform, in September 2003, Zhou established a new Financial Markets Department in the PBC tasked to develop new financial policies and products for capital markets. The PBC's plan for capital markets reform comprised the recapitalization and control of large national brokerages through the Central Huijin Investment Company; the fostering of corporate bond market; the establishment of an advanced payment and settlement system and; the opening of stock market to foreign capital – in 2002, the China Securities Regulatory Commission approved the Qualified Foreign Institutional Investors Scheme, which has permitted, albeit on a limited scale, the participation of foreign capital in China's RMB-denominated A share market (Naughton, 2004; Shen, 2006; Walter & Howie, 2011; Bell & Feng, 2013).

In 2007, the MF reestablished part of its control over SOBs through the China Investment Corporation (CIC). As mentioned in the previous section, one of the most important mandates of the PBC is the management of China's foreign reserves, which is carried out by the SAFE, a subordinate agency of the PBC operating under the supervision of the State Council. Before 2007, international reserves were exclusively managed by SAFE. However, as the MF had long been struggling to secure some control over the foreign reserves, in September 2007, it managed to establish the CIC, marking another institutional battle between the PBC and the MF in a number of rivalry episodes that have intensified since the beginning of financial reforms. The CIC is a sovereign wealth fund created under the control of the State Council and composed mainly by personnel tied to the MF and the NDRC. CIC's initial capital of US$ 200 bi was

[62] The Central Huijin Investment Company was established by the central bank as a state investment body designated to recapitalize state banks with state's foreign exchange reserves before their public listings (Bell & Feng, 2013).

[63] In June 2005, Bank of America acquired 19.9% of China Construction Bank and in July, Temasek, one of Singapore's sovereign wealth-funds 5% (Walter & Howie, 2011).

raised through the issuance of special treasury bonds by the MF to buy the PBC's foreign exchange reserves. From the total capital amount, US$ 140 bi were used by the MF to acquire CIC's participation in the Central Huijin Investment Company and thus recover part of MF's control over SOBs; and the remaining US$ 60 bi, i.e. only a small portion of foreign exchange reserves, were set aside for other investments to be made following MF's preferences. In the end, the largest part of China's international reserves is still under the control of and is managed by the PBC through the SAFE (Feng, 2007, 2011; Bell & Feng, 2013).

Zhou also engendered the reform of foreign exchange regime, which has represented an important achievement for the authority and confidence of the PBC within the party-state system. The PBC pressured the CCP's leadership for the reform of foreign exchange system aiming to strengthen its ability to use interest rate policy more effectively and diminish the need of continuously accumulating international reserves, a practice that imposes high costs for China. Since the PBC has to buy all excess of foreign exchange in the interbank market with RMB to stabilize the currency value, a substantial increase in the supply of foreign exchange corresponds to an increase in the domestic money supply, causing serious inflationary pressures for the PBC to tackle. To nullify the impact of foreign exchange operations in domestic money supply, the central bank removes liquidity from the banking system through sterilization. Because the inflow of foreign exchange and foreign capital is still significantly large and sterilization is partial and incomplete, in persuading the Party's leadership to relax the foreign exchange regime, the central bank argued that this situation could lead to an unsustainable situation of increasing domestic inflation. On July 21, 2005, the PBC, after the approval of the State Council, announced the replacement of the dollar peg regime for a managed floating system with the RMB linked to a basket of currencies and permitted to fluctuate within a narrow band on a daily basis of +- 0.3%, which was subsequently widened to +- 0.5% in 2007. Meanwhile, the RMB appreciated by 2.1% against US dollar. Therefore, the PBC managed to utilize international pressures as well as domestic inflationary pressures to essentially materialize its own plan of gaining greater monetary policy discretion (Y. Wu, 2006; Volz, 2014).

The strong political ties between the CCP and the PBC are evidenced by the long period that Zhou headed the central bank: from December 2002 to March 2018, the longest mandate of a PBC's governor. His expertise, experience and international profile made him the best option of the Party for governing the bank and securing national financial stability and macroeconomic equilibrium. Even after political changes in 2013, when the new government of Xi Jinping and Li Keqiang assumed, Zhou was reappointed for the position (Feng, 2013; Bell & Feng, 2014). In 2018, following the same technical assessment, the Party's elites agreed on appointing Yi Gang as the PBC's new governor. His technical profile – he pursued a technical career in the PBC, occupying lead positions in areas of monetary policy, foreign exchange policy, management of international reserves – confirms Party's preferences for professional expertise and solid policy background in the administration of the central bank (Central Banking, 2018). Zhou has transformed the PBC into an assertive and innovative institution, which has emerged as an indispensable problem solver in the Chinese economic system. On the side of the Party's leaders, it is more important to support institutions capable of solving problems than to maintain long-term relations with incompetent bureaucrats (Shih, 2007). In such sense, the Party has developed a political and institutional dependence on the PBC, because the central bank has the expertise in dealing with complex financial and monetary issues and adopts a sound management of macroeconomic and financial policies that ensure a good performance of national economy and ultimately contribute to increase the legitimacy and power of the Party over Chinese society. Overall, the PBC has been able to increase its *de facto* power within the Chinese party-system mainly by becoming indispensable to the Party's elite, strengthening and expanding specialized expertise, monopolizing information, setting agendas and performing strongly in policy arena.

3.3.2 Domestic Agents' Preferences

To better understand states' preferences for a type of institutional arrangement – formal or informal – we need to apply an approach that looks below nation-state level. Overall, domestic approaches of international relations, such as liberal perspectives (Gourevitch, 1986; Haggard, 1997; Moravcsik, 1997) and two-level game analyses (Putnam, 1988), do not treat states as unitary actors but rather as institutional structures within which, and on behalf of which, individual actors responsible for foreign policy decision-making – those with a political mandate to (heads of state, heads of government, ministers) – act (Hudson, 2003; Hill, 2003). States' preferences are formed in the domestic level and are ultimately an outcome of domestic politics of which domestic actors participate. They are indeed the preferences of domestic actors that act on behalf of the state in the international arena. In monetary and financial cooperation, the central bank and the ministry of finance are the central state agents. As bureaucracies, their main interest is to ensure their survival by securing or expanding their political territories. For that, they seek to increase their influence in policymaking within the policy space, and their preferences and intentions are driven by this main interest (Downs, 1967). In case of the CMIM policymaking, the MOF and the PBC have concentrated the power – *de jure* and *de facto* – to shape states' preferences and decisions, and they act strategically to safeguard their central roles in regional cooperation and institution-building. With respect to our dependent variable – CMIM's institutional design – these actors have attempted to design the regional arrangement according to their preferences, aiming utmost to preserve their political power.

Given the objective of the CMIM, which is to provide short-term financing in foreign currency (US dollars), members' foreign exchange reserves are the essential element that guarantees the effective operation of the regional institution. For China and Japan as the main creditor countries, this issue is even more sensitive since they support most of the risks associated with the emergency loans. International reserves are an important tool of macroeconomic management, especially when financial turbulences may affect negatively domestic financial market. In potential crisis situations, the MOF and the PBC may use foreign exchanges reserves to restore domestic financial stability through, for instance, interventions in foreign exchange market and provision of emergency loans in foreign currency to insolvent financial institutions. Thus, the MOF and the PBC would prefer to establish a regional financing mechanism that would preserve their power over the management of reserves in order to not put states' international reserves at risk and secure the adequate performance of their functions and credibility as the government agencies responsible for the maintenance of financial stability.

Both organizations' preferences regarding the management of foreign exchange reserves are related to the principles of safety and liquidity. Japan holds foreign currency assets denominated in US dollars, euros and pound sterling, mostly, in form of deposits with central banks and securities issued by governments and other institutions of foreign countries with maturity not exceeding 5 years (BOJ, 2000, 2012; MOF, 2005). According to Table 7, as of June 30, 2018, Japan was the major investing country in US securities, holding a total amount of US$ 2.04 bi, most of them concentrated in US treasury securities.

The SAFE adheres to the principles of security, liquidity and increase in value, among which security is the primary principle, to manage China's international reserves. The agency seeks to maintain a sufficient liquidity to satisfy the general demand for external payments and effectively safeguard the stability and security of national economy and finance. Under the condition of guaranteeing overall security and liquidity, the SAFE also strives for higher investment returns in order to keep and increase the value of reserves. In such sense, China's foreign exchange reserves include the major currencies, such as the US dollar, the euro, the Japanese yen, as well as currencies of some emerging countries. However, the SAFE does not disclose the detailed composition of Chinese reserves but only their magnitude. Officials argue that information transparency on international reserves should be accomplished in a prudent and measured manner, because any information disclosed about investments may induce market turbulence and deteriorate investment returns given the large scale of China's reserves and China's significant position in international financial markets. Figures shown in Table 7 indicate that a weighty amount of China's reserves is invested in dollar-denominated assets, especially in US government securities. As of June 30, 2018, China held the largest amount of US treasury bonds – US$ 1.2 bi – which corresponds to 21.7% of the total (US$ 5,467 bi). The SAFE recognizes the adequacy of US treasury market to SAFE's management principles for investments of foreign exchange reserves in terms of safety, liquidity, large volume and comparatively low transaction costs (Feng, 2007, 2011; SAFE, 2010, 2011).

Table 7: Foreign holdings of U.S. securities for the major investing countries into the United States, as of June 30, 2018 (Billions of dollars)

Country	Total	Equities	Long-term debt[2]			Short-term debt
			Treasury	Agency	Corporate	
Japan	2,044	543	970	258	208	65
Cayman Islands	1,757	1,038	86	31	487	115
China, mainland[1]	1,607	217	1,188	181	17	5
UK	1,598	924	229	11	390	45
Luxembourg	1,494	617	169	36	568	103
Canada	1,210	928	87	5	171	19
Ireland	1,149	393	247	47	328	134
Switzerland	813	452	206	12	113	30
Belgium	739	54	138	4	512	31
Taiwan	577	65	161	250	99	2
Total[3]	**19,400**	**8,139**	**5,467**	**1,024**	**3,790**	**980**

Source: US Department of the Treasury, Resource Center, at https://home.treasury.gov/news/press-releases/sm676

[1] Excludes Hong Kong and Macau.

[2] Long-term debt securities have an original term-to-maturity of over one year.

[3] The total values do not correspond to the sum of the total amounts of each column.

3.3.3 Rational Design of Institutions: Systemic Conditions

As extensively addressed in chapter 2, RDI scholars argue that institutional design of international institutions is an outcome of states' rational choices to overcome common problems (or systemic conditions) – uncertainty, enforcement, bureaucratic costs, bargaining costs, sovereignty costs, etc – inherent to any international cooperation process. The systemic conditions pointed out by RDI literature are systemic in the sense that they are part of the context/structure/system in which the set of relations among states and the institution-building cooperation process take place. Rather than the static concept of system proposed in large part of international relations literature, the system is not fixed. It comprises the actors and the relations which they entertain. Each state deals with systemic conditions individually thus having particular interests and preferences associated with them. However, to achieve an objective, the state should take into account not only its own preferences in relation to systemic conditions but also its position in relation to the system, i.e. other states' preferences. This interplay between states' preferences and the system shapes states' decisions and produces an interactive process in which foreign policy decisions feed back into the system, modifying or leaving it unchanged, and into the actor itself, which may adapt to new circumstances. As negotiations advance, new conditions may arise or states' preferences in relation to previous conditions may change (Smith, Hadfield & Dunne, 2008). On the basis of RDI framework, systemic conditions impact on states' actions and drive states' preferences to more formal or informal institutional arrangements. As shown in the empirical analysis, throughout the development of the CMIM, China and Japan faced several systemic conditions, and the manner they had coped with them has affected the outcomes of negotiations, or in other words, the CMIM's institutional design.

In the next section, I conduct the empirical analysis of the institutional development of the CMIM, demonstrating the central role played by the MOF (Japan) and the PBC (China) in the policy and decision-making throughout the institutionalization process of the regional arrangement. The study depicts how the strategic actions of these domestic agents to safeguard their interests/preferences and deal with systemic conditions have impacted on the CMIM's institutional design.

3.4 Case Study: CMIM Empirical Analysis

The 1997 Asian financial crisis can be interpreted as a critical juncture that has transformed economic regionalism in East Asia towards cooperation and institutionalization in financial and monetary areas (Hamada, Reszat & Volz, 2009). The uncertainty about a new capital account crisis prompted the adoption of collective measures, such as emergency financing mechanisms and regional forums for policy coordination, to help countries in reducing their vulnerabilities to international capital flows (Cai, 2010). In the aftermath of the financial crisis, the MOF assumed a leading role in proposing and implementing regional initiatives to improve regional financial stability. When the crisis erupted in Thailand in July 1997, Japanese government was the first to propose a financial package to help the country. The MOF's officials organized meetings with various East Asian national authorities to convince them to participate in Thai emergency loan and discuss measures to strengthen regional financial cooperation. In August 1997, Japan and the IMF convened a conference in Tokyo and agreed on a financial package of US$ 17.2 billion with contributions from multilateral institutions and individual countries – Australia, China, Indonesia, Japan, Malaysia, Singapore and Korea. The US and Europe refused to participate (IIMA, 2005; Hayashi, 2006). The success of the Japanese-led rescue package for Thailand encouraged the next initiative: the Asian Monetary Fund (AMF), a US$ 100 billion regional fund composed by 10 members and designated to assist countries with short-term liquidity needs.[64] The vice finance minister Eisuke Sakakibara and other finance officials started to formulate the new regional proposal immediately after the Tokyo conference. They wanted to benefit from the Asian sense of solidarity that had emerged at the occasion to promote the AMF plan. Before the official announcement, the MOF sent many senior officials to Hong Kong, Singapore, Malaysia, Indonesia, Korea, China and Australia to discuss the AMF idea and get their support (Sakakibara, 2000). The arrangement, however, did not envision the participation of the US as a member neither any kind of link to the IMF. This 'independent' design was a result of Japan's skeptical position in relation to the effectiveness of the IMF policies applied during the crisis as well as a strategy of Japanese government to gain support from other Asian countries that carried a political stigma towards the Fund due to the strict conditionalities imposed in lending programs (IIMA, 2005; Duran, 2017). The AMF was officially announced at the IMF and the

[64] The AMF would be composed by the following countries: Japan, Australia, China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea and Thailand (Hayashi, 2006).

World Bank Annual Meeting in September 1997. As expected, the IMF and the US radically opposed to Japanese proposal, arguing that the regional fund would increase moral hazard as countries would borrow funds without conditionalities. The IMF worried indeed that its role of lender of last resort might be weakened, and the US was concerned about losing its sphere of influence in East Asia to Japan. The AMF received support from ASEAN countries and Korea. In relation to China, the MOF's officials discussed the AMF proposal directly with the PBC, but the governor was not able to offer a formal support to the initiative since Chinese bureaucracy could not reach an agreement on China's participation, which was finally vetoed by the Ministry of Foreign Affairs. China chose to follow the strategy of preventing to back any regional initiative that could encourage Japanese leadership in the region (Amyx, 2005; Hayashi, 2006, Jiang 2010). Japan officially called off the proposal in November 1997 at the meeting of finance and central bank deputies from fifteen Asia-Pacific countries. [65]

In October of 1998, Japan decided to extend further support to the region by implementing the New Miyazawa Initiative under the leadership of the Finance Minister Kiichi Miyazawa. The government provided a financial package to East Asian neighbors, totaling US$ 30 billion. US$ 15 billion were made available for medium-long term financial needs[66], and US$ 15 billion, in the form of bilateral swap agreements, were set aside for possible short-term capital needs that could arise along the process of implementation of economic reforms.[67] The New Miyazawa Initiative was very welcomed by Asian countries, contributing to reinforce Japanese influence in regional financial cooperation (Sun, 2007). In parallel to the launch of the New Miyazawa Initiative, Japanese finance officials retook the efforts to establish a regional financing mechanism. Although they became increasingly outspoken in the criticism of the IMF approach to Asian crisis and advocated for a limited involvement of the Fund in domestic issues through structural conditionalities, this time, in order to obtain international approval for their next undertaking, they adopted a more moderate speech, recognizing the IMF as the central

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[65] In response to the AMF, at the same meeting, the US and the IMF proposed another initiative: the Manila Framework. Safeguarding the central role of the IMF, the initiative had the purpose of deepening regional cooperation to ensure financial stability. The group ended in 2003 due to its ineffectiveness and few contributions (Kawai, 2015).

[66] The medium-long term measures for financial assistance included: (i) extending Export-Import Bank of Japan (JEXIM) loans to Asian countries; (ii) acquisition of sovereign bonds issued by Asian countries by JEXIM; (iii) extending Official Development Assistance yen loan to Asian countries; (iv) supporting Asian countries in raising funds from international financial markets by providing guarantee mechanisms; (v) financial support in the form of co-financing with the World Bank and the Asian Development Bank and; (vi) technical assistance. https://www.mof.go.jp/english/international_policy/financial_cooperation_in_asia/new_miyazawa_initiative/index.htm. Accessed on 15 December 2018.

[67] The countries that received medium-long term support were: the Philippines (USD 3 billion), Korea (USD 1 billion) and Malaysia (USD 700 million). Japan also provided funds to Malaysia and Korea through swap transactions of US dollar and local currencies – USD 2.5 billion and USD 5 billion respectively.

institution of the international financial system and proposing the establishment of regional financial initiatives to complement the IMF (Sakakibara, 1999; 2000; Miyazawa, 1998).

Japan was the driving force behind the establishment of the CMI, and the MOF played once more a leading role in the drafting and early implementation of the regional arrangement. Given the lack of success in its first attempt, to reduce uncertainty over Japanese intentions, Japanese policymakers followed a different strategy this time. Japanese finance officials conducted a series of negotiations with deputy representatives of the other ASEAN+3 countries, especially with China and Korea, before the official announcement of the CMI. Based on the MOF's previous experience in providing emergency loans under the Miyazawa Initiative, Japan suggested a similar design for the CMI: a network of bilateral swap agreements (BSAs). According to Masaru Hayami, BOJ's ex-governor, the swap lines were a powerful framework to deal with uncertainty in times of crisis because of the flexibility that central banks would have to act when necessary, reducing substantially the stress in interbank funding market for foreign currencies, alleviating the pain of the adjustment process and temporarily stabilizing the situation in times of volatility.[68] The CMI was officially launched in May 2000 at the AFMM+3 in Chiang Mai, Thailand, as a regional initiative with two core objectives: (i) to address short-term liquidity difficulties in the region and (ii) to supplement the existing international financial arrangements (AFMM+3, 2000).[69]

The institutional design chosen by Japanese finance officials for the CMI was the most appropriate to overcome problems related to systemic conditions, such as sovereignty costs, bargaining costs, bureaucratic costs and enforcement. Regarding sovereignty costs, in regional cooperation, Chinese government has often preferred informal frameworks that emphasize voluntarism and consensus building rather than legally binding resolutions. As China considers the level of institutionalization an important factor in its decision to participate in regional initiatives, the Chinese leadership hesitates to integrate regional institutions that establish binding rules that might undermine state sovereignty and limit China's leeway (Zhao, 2011). In such sense, the BSAs reduced Chinese concerns about losing its autonomy since they did not threaten state sovereignty and were an easy regional mechanism to implement. The emergency loans would be conducted bilaterally, which means that states would not need to pool their

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[68] Speech given by Masaru Hayami, Governor of the Bank of Japan, at the Asian Pacific Bankers Club on March 17, 2000.

[69] The CMI also included the ASEAN Swap Arrangement (ASA) established in August 1977 by the five original members of the ASEAN as a multilateral swap arrangement to provide immediate short-term funds (US dollars in exchange of domestic currencies) to countries with temporary international liquidity problems. With the creation of the CMI, the ASA was incorporated to CMI's network of BSAs and expanded to all 10 ASEAN countries.

resources into a fund. Otherwise, loans would be negotiated strictly between two countries, and the funds would be transferred only in case of a swap activation request and after the approval of the providing party. Once the credit risk would be borne only by the creditor country, it would have flexibility and autonomy to structure the transaction – interest rates, total term, conditions – according to the risk profile of each requesting party and its own analysis and judgment of borrower's economic performance. The Chinese Ministry of Finance, Xiang Huaicheng, formally announced China's support to the CMI in January 2001 (Amyx, 2008; Grimes, 2006; Jiang, 2013). The option for the BSA mechanism also contributed to attenuate the bargaining costs associated with negotiations with the US. The BSAs were a type of emergency financing well-known outside East Asia, especially for the US. In the 1960s, the US Federal Reserve (FED) built a network of BSAs among ten industrialized countries to help them to control short-term pressures on their balance of payments under the Bretton Woods system of fixed exchange rates (Ciorciari, 2011; McDowell & Steinberg, 2017).[70] As swap agreements represented a more conventional and less politically ambitious plan for a regional financing arrangement in comparison to the AMF, the costs for obtaining the US support were reduced. Similarly, the bargaining costs in relation to the IMF were also lower due to the formal link established between the CMI and the Fund, which safeguarded the complementary role of the regional arrangement towards the IMF. During the negotiations, China firmly insisted on linking the BSAs completely to the IMF (Amyx, 2002; Narine, 2003; Jiang, 2013), but Japan's stance was that BSAs should be linked to the IMF in some degree, not fully (Amyx, 2002). To manage China's claims and the preferences of potential borrowers – ASEAN countries, especially Malaysia, which advocated for a complete independence of the CMI from the IMF – Japan proposed a linkage of 90% to the IMF programs, which was finally accepted by all countries (Amyx, 2005). The link allowed that only 10% of BSAs amount could be activated subject to bilateral terms. The remaining 90% could be withdrawn if the requesting party adopted an IMF program for macroeconomic and structural adjustments, mitigating moral hazard. The borrowing country could solve economic problems generated by liquidity difficulties through a quick access to emergency funds (10% of the BSAs) and adoption of an adjustment program under the IMF's supervision. The IMF link also helped Japanese

[70] In 1969, the network of bilateral swaps encompassed 11 central banks with a total amount of USD 10 billion. In 1978, the total amount reached USD 30 billion. These bilateral agreements remained active until the end of the 1990s, when FED terminated all of them except for the agreements signed with Canadian and Mexican central banks that were associated with NAFTA. The 2008 financial crisis exhibited a revival of bilateral swaps, when FED established new swap lines with Brazil, Korea, Singapore, Mexico and other developed countries (Moessner & Allen, 2010).

policymakers to overcome bureaucratic costs and ensured the early implementation of the arrangement. In the absence of an independent and well-administrated regional surveillance unit, which could take a long time to be negotiated and settled, the best and faster option was to use the established apparatus and experience of the IMF in surveillance and monitoring of lending activities. This would enhance the credibility of the CMI as well as help in dealing with another problem: enforcement. Japan and China as the main potential creditors tended to support risk-averse approaches that would reduce moral hazard behavior of potential borrowers and increase chances of repayment. The close link with the IMF ensured the application of conditionalities to the BSAs and released them from the burden of designing and imposing conditionalities to their neighbors (Amyx, 2004; Asami, 2005, Hamilton-Hart, 2006; Grimes, 2011).

Despite Chinese efforts to take part in regional financial cooperation, Japan (MOF) was the central driving force of regional financial cooperation in the aftermath of Asian crisis, offering bilateral assistance to Asian countries through the Miyazawa Initiative, proposing the establishment of the AMF and leading the formulation and implementation of the CMI's BSA network (Huotari, 2016). Until the 1990s, Chinese foreign policy followed a low profile marked by a reluctance of the government in engaging more deeply in regional cooperation. China was afraid to be interpreted as an aggressive or ambitious state, aiming to become a hegemon in the region. However, the 1997 Asian financial crisis has completely changed Chinese regional policies (Ye, 2012). At the 15th National Party Congress in September 1997, the Central Party Committee and the State Council established that more priority should be given to the strengthening of financial reforms and the prevention and management of financial risks (Zhu, 1999). The strategic change of China regarding regional cooperation and institution-building was motivated primarily by its domestic interests of creating a safe and peaceful periphery for its economic growth and prosperity (Zhao, 2011). Particularly, regional financial cooperation has become part of government's strategy of pursuing national financial security, and regional financial policies have started to be seen as an important tool to achieve state's goals (Breslin, 2003; Xiao, 2006; Yeung, 2009; Jiang, 2013). Jiang Zemin's report (former China's president) at the 16th National Party Congress in 2002 remarked that China should take an active part in regional economic exchanges and cooperation, bearing in mind the safeguard of national economic security, state sovereignty and opposition to hegemonism and power politics (Zemin, 2002). As such, China has replaced its attitude of refusing automatically Japanese proposals with becoming an active player and supporter of cooperation. Chinese government has decided to join regional efforts to ensure Chinese influence over cooperation process and enhance the image of responsible great power associated with the rising of its economic power (Park, 2011; Jiang, 2010, 2013). To illustrate this new position, during the financial crisis, China decided to not depreciate the RMB and provided US$ 4 billion to Thailand under the IMF's financial package (Xiaoling, 2007). The change of China's stance towards regional cooperation was essential for the establishment of the CMI as China was the second largest holder of foreign exchange reserves in the region, and any emergency financing arrangement could be impossible without Chinese participation (IIMA, 2005).

Despite the decision of increasing its engagement in regional initiatives, China's outlying behavior during the initial developments of regional financial cooperation can be explained by the timid participation of the MF and the PBC in regional policy and decision-making. Although the MF was the Chinese government representative in regional financial forums, the Ministry of Foreign Affairs (MFA) led the domestic discussions about the participation of China in the first regional initiatives. The dominance of MFA's political and strategic thinking in relation to foreign policies accounted for the decision of the State Council to not approve China's support for the AMF. Additionally, the lack of legal mandate and authority of the MF in managing foreign exchange reserves, formulating financial policies and conducting national and international financial operations hindered its effective involvement in regional financial forums and ultimately limited China's participation in financial cooperation (Jiang, 2013). To increase Chinese influence in regional financial efforts, China succeeded in including in regional financial forums the domestic agent with the largest expertise in financial issues: the PBC. At the ASEAN+3 Informal Summit Meeting in November 1999, Chinese officials announced the launch of the ASEAN-China, Japan and Korea Dialogue of Finance and Central Bank Deputies and suggested the formal institutionalization of the dialogue process, which was after established as a new regional forum named the ASEAN+3 Finance and Central Bank Deputies Meetings. Chinese policymakers intended to play a more central role in second-track dialogues to indirectly influence first-track decisions. Indeed, the meetings at deputy level have gained greater importance because they became the policy space where countries shape regional financial cooperation by exchanging views on regional issues, discussing operational and technical issues of the CMIM and elaborating proposals for approval at the high-level officials' meetings (Jiang, 2013). For instance, the first studies on the modalities and mechanisms for a regional financing arrangement were conducted by the ASEAN+3 finance and central bank deputies (ASEAN Finance Ministers Meeting, 2000) and, recently, as part of the CMIM institutional periodic review, deputies have actively engaged in working out solutions for the CMIM including: swap activation exercises, development of coordination mechanisms between the CMIM and the IMF and elaboration of the CMIM Conditionality Framework (ASEAN+3 Taskforce on CMI-Multilateralization Progress Report to the AFCDM+3, 2017). The former Chinese Premier Zhu Rongji strongly advocated for the presence of central banks in finance forums, emphasizing that it was '*imperative to strengthen and deepen this effective dialogue mechanism*'. He also suggested the participation of central bank governors in the meetings of finance ministers, but governors just started to participate in ASEAN+3 finance regular meetings in 2012 (Zhu, 1999; Siregar & Chabchitrchaidol, 2013).

The engagement of the PBC in regional financial cooperation after the creation of the finance and central bank forum did not produce immediate effects in the institutionalization process of the CMI. Unlike the AMF, China supported and participated in the planning and implementation of the CMI but preferred to adopt a more cautiously approach, conditioning its involvement to '*future developments*' (Xiang, 1999). Two are the main reasons for that. First, right after the Asian financial crisis, the Chinese Premier Zhu Rongji initiated a deep reform of the Chinese financial system that focused on the development of bond and capital markets and the restructuring of banking sector, especially the recapitalization and repositioning of bankrupt state banks – Bank of China, China Construction Bank, Industrial and Commercial Bank of China and the Agricultural Bank of China. The PBC was completely involved in the reform process, and the Governor Zhou Xiaochuan became the principal architect of the changes. Since the PBC was profoundly committed to resolve domestic problems, less attention was given to the regional level and to the CMI. Second, because the PBC had no previous experience as Japan (MOF) with bilateral swap agreements, China preferred to let Japanese finance officials finishing the first negotiations and agreements with ASEAN governments so that a basic framework for the CMI BSAs could be produced, and China could enter into agreements on the basis of this framework. At this time, China's capacity to lead or make substantial contributions to regional initiatives was weak. It could be seen more as a beneficiary of capacity building instead of a deliverer of know-how on effective financial arrangements (MOF, 2000; 2005; 2006; Amyx, 2005; Hayashi, 2006; Park, 2011). Moreover, the experiment-based methodology for implementing policies has been a permanent element of post-Mao reforms in a number of issues such as private business restructuring, state-owned enterprise reforms and financial reforms (Naughton, 1996; Zweig, 2002). As shown in Tables 8 and 9, Japan led the implementation of the CMI by concluding 4 BSAs in 2001, shortly after the CMI establishment, while China's negotiations were concluded more sparsely during 2002 and 2003. The BSAs negotiated by Japan exceeded significantly in amount and number the BSAs concluded by China. While Japan signed 15 BSAs and committed US$ 63.5 billion, China signed 8 BSAs, totaling US$ 16.5 billion.

Table 8: BSAs signed by Japan under the CMI

Date	Country	Amount (USD billion)	Type
07/04/2001	Korea	2.00	one way
07/30/2001	Thailand	3.00	one way
10/05/2001	Malaysia	1.00	one way
08/27/2001	Philippines	3.00	one way
03/28/2002*	China	3.00	two way
02/17/2003	Indonesia	1.5	one way
11/10/2003	Singapore	1.00	one way
01/25/2005	Thailand	3.00	two way
05/27/2005**	Korea	3.00	two way
08/31/2005	Indonesia	6.00	one way
11/08/2005	Singapore	3.00	two way
02/24/2006	Korea	10.00	two way
05/04/2006	Philippines	6.00	two way
07/10/2007	Thailand	6.00	two way
04/06/2009	Indonesia	12.00	one way

Source: Japanese Ministry of Finance / *swap of local currencies (yen-RMB) / ** swap of local currencies (yen-won)

Table 9: BSAs signed by China under the CMI

Date	Country	Amount (USD billion)	Type
12/06/2001	Thailand	2.00	one way
03/28/2002*	Japan	3.00	two way
06/24/2002**	Korea	2.00	two way
10/09/2002	Malaysia	1.5	one way
08/29/2003***	Philippines	1.00	one way
12/30/2003	Indonesia	1.00	one way
10/21/2005	Indonesia	2.00	one way
10/17/2006	Indonesia	4.00	one way

Source: People's Bank of China / *swap of local currencies (yen-RMB) / ** swap of local currencies (RMB-won)/ ***swap of local currencies (RMB-Philippines Pesos).

At the 2001 AFMM+3, finance ministers agreed on reviewing the main principles of the CMI in three years and established the ASEAN+3 Study Group, comprising senior finance and central bank officials, to examine ways of enhancing the effectiveness of the arrangement and policy dialogues. In 2004, a working group formed by the ASEAN+3 Study Group and the ASEAN+3 Research Group – a network of 22 research institutes of ASEAN+3 countries – was tasked to conduct studies to review the CMI and report the outcomes to finance ministers. Japan and China provided financial assistance for these studies and led two groups to investigate how the CMI could be expanded and could improve its effectiveness (AFMM+3, 2001; 2002; 2004). The Japanese study[71] was elaborated by the Institute for International Monetary Affairs (IIMA), and the Chinese[72] by the Chinese Academy of Social Sciences (CASS), both think tanks. Japanese and Chinese scholars pointed out similar institutional weaknesses of the CMI: lack of standard rules and procedures for swap activation; inadequate amount of funds to manage capital account crisis and; necessity of establishing a regional surveillance mechanism to reduce the IMF link. They recommended the implementation of a reserve pooling arrangement and an independent body or organization with a mandate to manage the funds, coordinate and monitor swap activations, conduct surveillance activities and set the conditionalities attached to emergency loans. After the conclusion of the studies, ASEAN+3 countries should decide to whether or not transform the CMI into a more formal institution like a regional monetary fund. However, at the 2005 AFMM+3, finance ministers agreed just on minor changes in operational procedures. A collective decision-making mechanism was adopted, enabling all members to provide simultaneously liquidity support to a requesting party through BSAs. The total size of the BSA network was enlarged by the increasing in the sizing of existing BSAs, the conclusion of new agreements and the transformation of one-way BSAs into two-way BSAs (both parties could either be a requesting or providing party). The IMF de-linked portion was increased to 20%, and swap activation was conditioned to participation of the requesting country in the ASEAN+3 Economic Review and Policy Dialogue (ERPD) (AFMM+3, 2005).

After a period of economic transition and capacity building on the CMI's issues, China has engaged to a greater extent in the CMI's institutional developments. In 2007, China and Thailand as chairmen of ASEAN+3 meetings conducted jointly studies on the proposal of replacing the network of bilateral swap agreements with a multilateral framework. The studies prepared by the Chinese Ministry of Finance, the PBC and the CASS recommended a flexible form of reserve pooling that could be easily triggered when necessary like the BSAs. These studies orientated the negotiations among ASEAN+3 countries, which agreed unanimously '*that a self-managed reserve pooling arrangement governed by a single contractual agreement*

[71] IIMA, 2005. 'Research Papers and Policy Recommendations on Economic Surveillance and Policy Dialogue in East Asia'. Tadahiro, A, 2005. 'Chiang Mai Initiative as the Foundation of Financial Stability in East Asia'. Available at https://asean.org/?static_post=asean3-research-group-studies-2004-2005. Accessed on 26 November 2018.

[72] He Fan, Zhang Bin & Zhang Ming. (2005). 'After the CMI: The Future of Asian Monetary Cooperation and China's Role'. Institute of World Economics and Politics, Chinese Academy of Social Sciences. Available at https://asean.org/?static_post=asean3-research-group-studies-2004-2005. Accessed on 26 November 2018.

would be an appropriate form for multilateralization' (AFMM+3, 2007; PBC, 2008; Jiang, 2013). In 2008, the total size of the arrangement was established in the amount of US$ 80 billion, and the proportion of contributions of the ASEAN and the +3 was set as 20:80. Clearly, two distinct groups were established within the arrangement: the creditor countries with the largest financial contributions – China and Japan – and the borrowers represented by Korea and ASEAN countries. Negotiations on financial contributions and voting shares brought back disagreements, especially between the two most powerful and rival members, China and Japan, as the share of each member's vote in the arrangement would determine its power to influence final decisions. Once more the uncertainty about leadership intentions and dominance interests affected Sino-Japanese relations. In the beginning, Japan played a central role in the CMI, providing larger amounts of funds than China through the BSAs. After the multilateralization, China has reached an equal position to Japan. Japan accepted China's proposal of adding to its contribution the amounts provided by Hong Kong and thus both ended up with equal shares of financial contribution and vote – 32% and 28.41% respectively (Sussangkarn, 2010; Huotari, 2016).

The global financial crisis of 2008-09 provoked substantial changes in the context, bringing back the problem of uncertainty. The instability of capital markets once again threatened East Asian economies with the possibility of another capital account crisis and thus pushed ASEAN+3 countries to speed multilateralization plans of the CMI. Yet, instead of making substantial improvements in the arrangement towards deepening institutionalization, Chinese proposal of a multilateral swap agreement signalized the continuity of preferences for a more flexible and informal institutional design to deal with systemic conditions such as uncertainty, sovereignty costs and operating costs. The CMIM agreement came into effect on March 24, 2010 replacing the bilateral swap agreements with a single multilateral swap agreement, and the total size of the arrangement was increased from US$ 80 billion to US$ 120 billion. Sovereignty costs were kept at low levels as financial contributions to the CMIM was agreed to be made through the exchange of commitment letters among national monetary authorities whereby members have committed to provide financial support up to the amount of their contributions only if a swap activation is requested. Moreover, the CMIM's parties may escape from contributing funds to a swap request upon Executive Level Decision Making Body's (ELDMB) approval or, in exceptional cases, such as extraordinary events, *force majeure* circumstances and domestic legal limitations, without the executive body's consent. Governments remained under the control of decisions through the Ministerial Level Decision

Making Body, which decides on the CMIM's fundamental issues (total size, contribution of each party, etc.), and ELDMB, which decides on loan issues (initial execution of drawing, renewal of drawing, events of default) by 2/3 majority effective vote. Both bodies are only composed but officials and representatives of the respective governments. Operating costs were also maintained low, because the CMIM's members have agreed on not providing the arrangement with a permanent secretariat. The swap activation process is coordinated by two Coordinating Countries – the two co-chairs of the ASEAN+3 Finance Process, one from ASEAN and the other from China, Japan or Korea; surveillance is mainly conducted by the CMIM's members through ERPD process and; the monitoring of use of fund was delegated to the IMF through the formal link of part of the CMIM's funds to IMF adjustment programs (AFMM+3, 2009; 2010; AFMGM+3, 2018). Still worried about the potential negative effects of the global and European crises on the regional economy, in 2012, ASEAN+3 countries implemented new institutional changes in the CMIM. They agreed on doubling the total size from US$ 120 billion to US$ 240 billion and increasing the IMF de-linked portion to 30%. Two credit lines were created: the CMIM Stability Facility (CMIM-SF) for crisis resolution and the CMIM Precautionary Line (CMIM-PL) for crisis prevention (AFMGM+3, 2012). The PBC pushed for the revised CMIM agreement came into effect in July 2014 (PBC Annual Report, 2014).

ASEAN+3 countries also decided to establish an independent regional surveillance unit to monitor regional economies and support CMIM implementation. The ASEAN+3 Macroeconomic Research Office (AMRO) was initially set as a company located in Singapore, and, in 2013, it was transformed into an international organization. The AMRO agreement was signed on October 10, 2014 and, in February 2016, all members concluded the internal ratification processes (AFMM+3, 2011; AFMGM+3, 2013, 2014, 2016). AMRO became an international organization with full legal personality mandated to: conduct macroeconomic surveillance, support the implementation of the CMIM and provide technical assistance to members.[73] AMRO functions as a monitoring unit, preparing assessment reports of countries' economic developments, and provides assistance to enhance CMIM's operational readiness through the elaboration of the CMIM's Operational Guidelines (procedures for swap activation) and execution of test runs under different scenarios since 2013. Additionally, AMRO offers advices and recommendations to member's authorities with respect to the review of key aspects of the CMIM's institutional design and works in the development of conditionalities for the

[73] AMRO's Agreement available at http://www.amro-asia.org/amro-agreement/. Accessed on 18 July 2018.

CMIM's loans (AFMGM+3, 2015; 2017). The involvement and influence of the PBC and the MOF also reached AMRO. In 2011, China appointed the first AMRO's Director: an ex-official of the PBC was designated for the position. Mr. Benhua Wei served as General Director of the PBC International Department from 1996 to 1999, was Deputy Administrator of the SAFE from 2003 to 2008 and worked at the Advisors Office to the PBC's Governor from 2008 to 2010. The next Director chosen for the term of 2012-2016 was Dr. Yoichi Nemoto, who held other senior positions within the Japanese Ministry of Finance, including Deputy Vice-Minister of Finance, Director of Regional Finance Co-operation and Director of Foreign Exchange Markets.[74]

The institutional framework of multilateral swap arrangement has satisfied the preferences both of the PBC and the MOF since it has preserved their autonomy in the management of international reserves. The CMIM agreement did not establish a regional fund but just defined collective principles and procedures for provision of emergency loans. There is not a permanent secretariat to manage the funds, which are transferred only if a swap request is approved. Despite the establishment of the AMRO as an independent organization, it functions just as a surveillance unit that plays a limited role in the CMIM activities. AMRO staff can make recommendations for the improvement of CMIM operationality, but decisions related to swap requests are still under the control of finance and central bank officials through the ELDMB. Therefore, this flexible and more informal institutional format has enhanced the power of the MOF and the PBC within the CMIM and has ensured the safety and liquidity of states' foreign exchange reserves under their control.

For the MOF, the multilateralization has not altered its central role in the CMIM policymaking. Since the establishment of the regional financing arrangement, the BOJ has acted from the viewpoint of putting the MOF's policies into practice (BOJ, 2011). The involvement of the BOJ has been limited to operational activities with slight or no influence in policy and decision-making. Although, before the multilateralization, the BOJ signed all BSAs, it did in the position of MOF's agent. The agreements should be signed by the central bank because, in case of swap activation, the procedures for transaction settlement would be carried out by the BOJ, but negotiations regarding the transaction terms were conducted by the MOF (BOJ Annual Review Report, 2006; 2007). Even after the implementation of the multilateral framework and the involvement of central bank governors in the regular meetings of ministers of finance (AFMGM+3, 2012) – before, central bank representatives participated only in deputy-level

[74] https://amro-asia.org/about-amro/director/.

meetings – the BOJ has not gained a more prominent role. The BOJ has still worked together with and under the guidance of the MOF on CMIM related issues such as studies on crisis prevention measures, establishment of the AMRO, coordination of the design of scenarios for liquidity-provision exercises and research on operational details (BOJ Annual Review Report, 2012; 2015; 2016; 2017; 2018; AFMGM+3, 2013). For the PBC, the maintenance of a swap institutional design has reinforced its privileged status in the Chinese party-system and increased its bureaucratic power in shaping regional financial policies. Given the nature of currency swaps – exchange of currencies carried out by central banks – the PBC has continued to be indispensable for the effective participation of China in the CMIM as it is the domestic agent that manages foreign exchange reserves and coordinates the operational procedures for swap settlements. Moreover, the PBC has actively been involved in implementing the CMIM operational guidelines, carrying out test runs, coordinating the first swap activation exercise with the IMF, strengthening coordination mechanisms with the IMF and making proposals for the CMIM institutional periodic review (PBC Annual Reports, 2015; 2016; 2017).

3.5 CMIM Spillover Effects

The PBC's previous experience with currency swaps under the CMIM framework encouraged the central bank to make further steps in international financial cooperation such as the internationalization of the RMB and the implementation of the BRICS CRA.

RMB Internationalization and Bilateral Swap Agreements

A report published by the PBC in 2006 – 'The Timing, Path and Strategies of RMB Internationalization' – marked the beginning of discussions within the Chinese political realm of RMB internationalization (PBC Study Group, 2006). However, it was just in 2009 that '*the Chinese government obviously changed its mind and became enthusiastic about RMB internationalization*' (Zhang, 2009). In March 2009, Zhou Xiaochuan, PBC's ex-governor, published an article on PBC's website calling for an internationally shift away from the US dollar as the world's reserve currency.[75] At that time, Zhou was chosen to represent China's voice, views and concerns about the structural imbalances in the global economy and to put

[75] Reform the international monetary system', People's Bank of China, accessed at http://www.pbc.gov.cn/english//detail.asp?col=6500&ID=178 on 20 August 2019.

into practice the new regional financial policies oriented by the Chinese leadership. The confidence of CCP in Zhou's capacity to conduct the RMB internationalization project was another indication of the PBC's institutional authority in international policies and reserve management, as well as Zhou's positive personal reputation within the international financial community perceived by the Party's leaders. The PBC and the SAFE have become the central domestic agents behind the internationalization of the RMBnwith Zhou convincing the CCP's elites to transform the RMB into an international currency (Bell & Feng, 2013). Thinking regionally, if the RMB became a currency largely used for settlement of trade and financial transactions within East Asian region, China's role in regional financial cooperation would also be strengthened (Zhang, 2009). Attending the 5th China-ASEAN Summit Forum on Financial Cooperation and Development, in September 2013, the PBC's deputy governor, Yi Gang reinforced that the PBC would '*actively promote monetary cooperation with countries in the region, encourage local currency settlement of bilateral trade and investment, promote the signing and the application of bilateral currency swap agreements to facilitate bilateral trade and investment, and provide liquidity support to the market*'.

As such, the PBC has begun to diversify the use of currency swaps beyond the scope of the CMIM. It started to sign local currency BSAs with Asian neighbors to encourage local currency settlement of bilateral trade and investment. From 2008 to 2019, the PBC has signed 58 BSAs with governments from all regions of the world that make up nearly US$ 995 billion.[76] Importantly, East Asian region is where swaps have substantially spread out, forming a dense network. Around half of the total amount of swaps – US$ 520 billion – was negotiated between China and CMIM countries (Table 10). Following the guidelines of the Chinese President, Hu Jintao, at the G20 Summit in November 2009 when he '*pointed out that efforts should be made to encourage regional financial cooperation, to enhance the capacity of providing liquidity assistance, to improve regional financial infrastructure and to make best use of regional liquidity assistance mechanisms*' (PBC, 2009), the initial steps of the RMB internationalization plan took place in East Asia region and involved especially CMIM countries. The first four swap agreements were concluded with Korea, Hong Kong, Malaysia and Indonesia. As CMIM countries were strong trade partners of China and given their knowledge and previous experience with swaps within the CMIM, Chinese government used local currency BSAs as a mechanism to encourage local currency – or RMB – settlement of bilateral trade and investments.

[76] Exchange rate on 08/13/2019: 1 US$ = 7.04 CNY.

Table 10: China's Bilateral Swap Agreements

Partner	Size (billions RMB)	Size (billions US$)	Year of the Agreement
CMIM countries			
Korea	180	25.6	2008
Hong Kong	200	28.4	2009
Malaysia	80	11.4	2009
Indonesia	100	14.2	2009
Singapore	150	21.3	2010
Korea	360	51.1	2011
Hong Kong	400	56.8	2011
Thailand	70	9.9	2011
Malaysia	180	25.6	2012
Singapore	300	42.6	2013
Indonesia	100	14.2	2013
Thailand	70	9,9	2014
Singapore	300	42.6	2016
Hong Kong	400	56.8	2017
Thailand	70	9.9	2018
Japan	200	28.4	2018
Indonesia	200	28.4	2018
Singapore	300	42.6	2019
TOTAL	**3,660**	**519.9**	**-**
Other Countries			
Belarus	20	2.8	2009
Argentina	70	9.9	2009
Iceland	3.5	0.5	2010
New Zealand	25	3.6	2011
Kazakhstan	7	1.0	2011
Pakistan	10	1.4	2011
United Arab Emirates	35	5.0	2012
Turkey	10	1.4	2012
Mongolia	10	1.4	2012
Australia	200	28.4	2012
Ukraine	15	2.1	2012
Brazil	190	27.0	2013
United Kingdom	200	28.4	2013

Hungary	10	1.4	2013
Albania	2	0.3	2013
Iceland	3.5	0.5	2013
European Central Bank	350	49.7	2013
Canada	200	28.4	2014
Nepal	undisclosed	-	2014
Qatar	35	5.0	2014
Argentina	70	9.9	2014
Switzerland	150	21.3	2014
Sri Lanka	10	1.4	2014
Russia	150	21.3	2014
Kazakhstan	7	1.0	2014
Armenia	1	0.1	2015
Georgia	undisclosed	-	2015
Tajikistan	3	0.4	2015
Suriname	1	0.1	2015
Australia	200	28.4	2015
South Africa	30	4.3	2015
Chile	22	3.1	2015
United Kingdom	350	49.7	2015
Egypt	18	2.6	2016
European Central Bank	350	49.7	2016
Australia	200	28.4	2018
Albania	2	0.3	2018
Nigeria	15	2.1	2018
Pakistan	20	2.8	2018
United Kingdom	350	49.7	2018
TOTAL	**3,345**	**475.1**	**-**
CMIM + Other Countries	**7,005**	**995.0**	

Source: Various media reports, PBC press releases and McDowell, 2019.
All BSAs expire three years after the initial agreement.

Recently, the PBC has also proposed to incorporate local currency swaps to the CMIM framework. The central bank has argued that the growing bilateral local currency swap networks in the region and the expanding trade and direct investment among regional economies have provided a stronger foundation for using local currency in making CMIM contributions. In 2013, the PBC organized a survey to gather members' views on the possibility of making contributions to the CMIM in local currencies, including the benefits, potential difficulties and challenges as well as principles that could be considered for these contributions in future. The results of the survey and other studies on the issue were presented by the PBC in a paper at the 2017 AFMGM+3. Half of the members expressed interest in making CMIM contributions in local currencies, noting that it should be a voluntary and gradual process. Drawing in the IMF policy of allowing members to pay 75% of their quotas in local currencies, the PBC suggested a step-by-step approach in which the CMIM's members could be encouraged to make a certain share of their contribution in local currencies. For example, 20% could be considered before it is raised in a gradual basis; or, alternatively, members could first evaluate contributing to the IMF-delinked portion in local currencies and later extending it to IMF-linked portion (PBC, 2017). At the 2019 AFMGM+3, the ASEAN+3 representatives agreed to endorse the 'General Guidance on Local Currency Contribution to the CMIM' that basically reaffirms the Chinese proposal of following a gradual approach for local currency contributions and reiterates the demand-driven framework in which contributions should be designed and implemented on a voluntary basis for both requesting parties and providing parties. The eligibility of currencies for contributions, size and modalities will be further explored in studies on the matter.

The motivations behind the adoption of BSAs by the Chinese government are diversified. Swap agreements are designed to promote the use of RMB as a trade settlement currency, thus reducing China's dependence on the dollar for settlement of its trade transactions. The dollar is the most internationalized currency of the world. It dominates almost each category in which a currency can be used outside of the issuing country (Cohen & Benney, 2013), and one of these categories is the cross-border trade settlement. Because the global trade system is known to be highly dollar dependent (Cohen, 2013; Goldberg & Tille, 2008), countries face two significant difficulties: the exchange rate risk and the vulnerability to interruptions to trade finance. Generally, central banks use currency swap as a way to address short-term liquidity problems by exchanging domestic currencies to foreign currencies, mostly dollar and euro. By signing currency swaps that provide RMB rather than dollars, the PBC aims to reduce the regional dependence on dollar and achieve the twofold goal of maintaining regional financial stability and promoting bilateral trade and investment. The local currency swaps enable a central bank to inject the swapped amount in a foreign currency – RMB – into domestic financial system, which can be borrowed by domestic commercial entities to pay for imports from other country – Chinese products. The exporters in the other country – China – receive the proceeds denominated in the domestic currency – RMB (PBC, 2009; 2013). Chinese government has been expanded the agreements that designate clearing banks selected for trade in RMB in nearly 20 financial centers around the world – Singapore, Seoul, Taiwan, Tokyo, Doha, Frankfurt, Zurich, London and Toronto. Offshore clearing banks connect Chinese domestic banking system to banking systems outside the mainland to settle renminbi payments (Cohen, 2017). From Chinese perspective, issuing a global currency would bring a number of economic benefits to China including the lowering of exchange rate risk faced by Chinese firms, the increasing of Chinese banks' competitiveness and the promotion of global trade with China (Yongding & Gao, 2011; Liao & McDowell, 2015; Prasad, 2017).

A second use of RMB is store of value in international finance. Significant progresses have been made by China in developing active offshore markets – Hong Kong, Singapore, London, Frankfurt – for renminbi deposits and renminbi-denominated bonds (*dim sum* bonds). In the case of swap agreements signed with the European Central Bank, Monetary Authority of Hong Kong, Monetary Authority of Singapore and the Bank of England, the fundamental purpose of the PBC is to ensure the liquidity of RMB for private investors who have deposits in RMB in banks and RMB-denominated bonds. Each of the jurisdictions above serves today as a developing offshore financial center for businesses in RMB. In effect, today, the onshore financial sector remains largely far off from offshore markets due to capital controls and other restrictions. Formally, RMB is not a convertible currency for most capital transactions. Observers agree that, without large reforms to develop and open the domestic financial sector, prospects for RMB to become an investment currency or reserve asset will still be limited (Subacchi, 2016; Frankel, 2011; Cohen, 2017; Prasad, 2017).

Finally, BSAs also can function as a short-term liquidity mechanism in the same way of the IMF and RFAs. However, in contrast to these institutionalized forms of short-term liquidity provision, BSAs are non-institutionalized policy instruments from which governments can access funds in a shorter period of time and do not need to submit to lender's conditionalities and surveillance, only to a minimum control of use of the resources (Destais, 2014). In such sense, China is developing the capacity to act as an international lender of last resort on behalf of foreign governments. As of 2019, at least 6 countries activated their swaps for this purpose: Argentina (2015), Mongolia (2015), Pakistan (2013), Russia (2014, 2015, 2016), Ukraine (2016) and Turkey (2019). Governments swap Chinese currency for dollars to increase their international reserves. There is not a strong evidence of how the exchange occurs, but the supposition is that central banks swap RMB for dollars in an offshore RMB market like Hong Kong or Singapore where such deals take place (McDowell, 2019).

China has the economic size needed to encourage the use of RMB especially for trade; it is the largest exporter country and the second market for imports. It also keeps linkages with other governments through strategic investments and programs of bilateral assistance that may help to incentivize the use of RMB by other countries (Liao & McDowell, 2015). In numbers, as of August 2019, the RMB's share as a global payment currency was 2.22%, coming in the fifth place. Globally, as of July 2019, there were 2,214 financial institutions using the RMB for payments, an increasing number largely driven by China's efforts in Asia, Africa and Eastern Europe under the Belt and Road Initiative[77], and Hong Kong remained the largest RMB-clearing center globally, with a 76.36% share of RMB activity outside Mainland China, followed by the UK with 6.18% of activity share. However, take-up of the RMB internationally has been relatively low. Continued growth of the use of the RMB may well be slow, because the major portion of global payments is still conducted in US dollar (42.52% as of August 2019), foreign ownership of Chinese stocks and bonds is low and just a few of trade transactions are invoiced in RMB. Although companies in more than 100 countries are using RMB for trade, the value of trade deals settled in the RMB fell 35.5% year-on-year to 4.1 trillion (US$ 622 billion) in 2016, and RMB settlement accounted for 16.9% of China's total goods trade in 2016 compared to 22.6% in 2015. Based on data for the full year 2017, Asian trade partners, such as Thailand and Malaysia, used less than 15% of payments in RMB, and Japan (China's second trade partner) used RMB for less than 25% of payments. Even for payments where the ultimate beneficiary is located in China or Hong Kong, the US dollar represented in 2017 more than 80% of payments, remaining as the dominant currency globally (SWIFT, 2018; 2019; PBC RMB Internationalization Report, 2017).[78] In political terms, investors and other economic actors have not been yet persuaded to shift from dollar or other hard currency (euro, yen) to renminbi. Chinese plan consists of encouraging the wider use of RMB abroad without seriously threatening Communist Party's control at home through policies such as intervention in interest rate system, credit allocation, capital controls and management of exchange rate. In other

[77] The Belt and Road Initiative was launched by China in 2013 as a plan to expand trade links among Asia, Africa and Europe. Growing usage of the RMB for BRI projects could increase in volume as Chinese firms potentially move to transactions denominated in RMB. For more details: https://www.oecd.org/finance/Chinas-Belt-and-Road-Initiative-in-the-global-trade-investment-and-finance-landscape.pdf.

[78] SWIFT RMB Tracker, January 2018 and SWIFT RMB Tracker, September 2019: https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/rmb-tracker/document-centre?tl=en#topic-tabs-menu. Accessed on 14 January 2019.

words, Chinese government has been made few concessions for domestic reforms expecting that China's economic size supports alone RMB internationalization (Cohen, 2017).

BRICS CRA

Besides the ASEAN+3 financial cooperation framework, the PBC has also actively participated in the meetings of finance ministers and central bank governors of the BRICS countries and has acted as the major advocate of the BRICS Contingent Reserve Arrangement (CRA), securing consensus on the treaty for its establishment. The BRICS CRA was proposed by the ex-PBC's Governor, Zhou, at the BRICS Finance Ministers and Central Bank Governors' Meeting in 2013. At the occasion, he emphasized that the BRICS should jointly set up the CRA and actively promoted the initiative with the other governments (PBC Annual Report, 2013; 2014; 2015). Countries signed the CRA agreement in July 2014 at the Fortaleza Summit. Based on PBC's previous experience with CMIM framework, Zhou proposed the similar flexible and informal institutional design for the CRA. The CRA is a self-managed contingent reserve arrangement to address short-term balance of payments needs and provide mutual support. There are two financing instruments – a liquidity instrument for crisis resolution and a precautionary instrument for crisis prevention – and 70% of the funds are linked to the IMF. Each member commits individual resources to the total size of USD 100 billion, being China the main creditor country (China USD 41 billion; Brazil, Russia and India USD 18 billion; South Africa USD 5 billion). As the funds are made available through currency swaps, each party retains full ownership rights in and possession of the resources that it commits, which should be transferred in case of a swap activation request. In addition, a party may opt out from participating in the liquidity support provided this is justified by its balance of payments and reserve position or by an event of force majeure (CRA Agreement, 2014). Table 11 shows a detailed comparison of the two arrangements, and we observe that they follow a quite similar institutional framework.

Table 11: BRICS CRA x CMIM

	BRICS CRA	CMIM
Institutional Format	Multilateral currency swap arrangement	Multilateral currency swap arrangement
Objective	Provision of support in US dollars in response to short-term balance of payments pressures	To address balance of payment and/or short-term US$ liquidity difficulties
Governance and Decision-Making	Governing Council (finance ministers or central bank governors): decisions by consensus of operational issues Standing Committee (central bank officials): decisions by simple majority for approval of swap activation requests	Ministerial Level Decision Making Body (finance ministers and central bank governors): decisions by consensus of operational issues Executive Level Decision Making Body (officials of finance ministries and central banks): decisions by 2/3 majority effective vote for approval of swap activation requests
Instruments	Liquidity instrument to provide support in response to short-term balance of payments pressures A precautionary instrument committing to provide support in light of potential short-term balance of payments pressures	CMIM Stability Facility: in the case of the actual balance of payments and/or short-term liquidity difficulties CMIM Precautionary Line: is a simplified crisis prevention facility
Access Limits	Access resources subject to maximum access limits equal to a multiple of each Party's individual commitment	Swap amount up to member's contribution multiplied by its respective purchasing multiples
IMF Link	30% of the maximum access for each Party subject only to the agreement of the Providing Parties A portion consisting of the remaining 70 % of the maximum access subject to evidence of the existence of an on-track arrangement between the IMF and the Requesting Party that involves a commitment of the IMF to provide financing to the Requesting Party based on conditionality	30% of swap funds can be withdraw without an IMF-supported program The remaining amount – 70% of the funds – can be only accessed if the requesting party submits to Fund's conditionalities established in an IMF adjustment economic program

Organizational Structure	No permanent secretariat. The Party that chairs the BRICS acts as coordinator, providing secretariat services and informing the requests for swap activation	No permanent secretariat. Two Coordinating Countries (one from ASEAN and other from China, Japan or Korea) co-chairs the meetings, providing secretariat services and coordinating the swap activation process
Conditionalities	Ex ante conditionalities applied for requests for support through the liquidity and precautionary instruments No specification of ex post conditionalities regarding IMF-delinked portion	CMIM Stability Facility: ex ante conditionalities applied (submission of ERPD country's reports) CMIM Precautionary Line: ex ante conditionalities based on five qualification criteria No specification of ex post conditionalities regarding IMF-delinked portion
Opt-out Provision	A Party may opt-out from participating as a Providing Party, provided this is justified by its balance of payments and reserve position or by an event of force majeure.	In principle, each of the CMIM parties may only escape from contributing to a swap request by obtaining an approval of the executive decision-making body. In exceptional cases such as an extraordinary event or instance of *force majeure* and domestic legal limitations, escape is possible without obtaining the approval.

Source: CRA Agreement and Joint Ministerial Statements of ASEAN+3 Finance Ministers and Central Bank Governors' Meetings (2000-2018).

The network of BSAs built in recent years by the PBC and the BRICS CRA evidence the spread of the Asian model of cooperation based on flexible and informal arrangements as discussed in next chapter. From the two examples of arrangements provided above, we observe that Asian region has been playing a more active role in building ideas, rules and institutions and shaping the design of international monetary and financial cooperation.

Chapter 4: Regional Studies and Insights for the Understanding of Regional Monetary and Financial Cooperation

The evidences presented here show that the CMIM's institutional design has been characterized by informality and flexibility. From the chapters above, I argue that systemic conditions – uncertainty, sovereignty costs, bargaining costs, enforcement problems, operating costs, etc – and domestic conditions – domestic agents' power and preferences – account for an institution-building process marked by gradual and incremental changes that has contributed to maintain CMIM's low level of formality and institutionalization. However, the literature applied to explain the CMIM's institutional design – Rational Design of Institutions and Bureaucratic Politics Model – largely ignores the local, national and regional contexts, which are fundamental variables for the understanding of regional cooperation and institutionalization in East Asia (Katzenstein, 1997). It is important to consider local ideas and historical practices of Asian economic regionalism to better comprehend how Asian particularities also help to explain the CMIM's institutional attributes. As such, one of the efforts of this work is to establish a congruence between Western theories and particularities of Asian region. The study of Asian monetary and financial cooperation and institutionalization is valuable in theoretical terms since it provides a counterargument to the euro-Western centrism found in a wide body of comparative regionalism literature. Most of these studies have based their theoretical assumptions on the European experience and, in general, are profoundly rooted in Western history and intellectual tradition. Notwithstanding, they fail in explaining tendencies and puzzles of international relations from non-Western world, because their concepts and analogies are exclusively supported by Western history and culture, ignoring the particularities of other regions. (Acharya, 2014).

Regional economic cooperation and institutionalization in East Asia have not followed the traditional course of establishment of formal international institutions as predicted by international relations theories such as neoliberal institutionalism and functionalism. Rather, they were characterized by complex interactions between states and non-state actors at different levels – global, regional and local. East Asia is the place where, even in the absence of common institutions and specific institutional mechanisms to promote regionalism, market forces prompted economic integration through the establishment of international production networks (IPNs). The IPNs were arranged based on comparative advantages of economies with different resource allocations and development levels, and Japan assumed the leadership of this economic integration process as the main provider of capital and technology and as an important market for raw materials and consumption of goods. While foreign direct investment (FDI) flows from the US were predominant in the region in the 1950s and 1960s, Japanese corporations, in the late 1960s, began to participate in an increasing share of regional FDI, achieving its boom in the 1980s. Investments made by Japanese companies were largely motivated by lower labor costs, higher profitability and financial liberalization of regional economies such as South Korea, Taiwan, China and Hong Kong. Japan reached a superior position *vis-à-vis* its neighbors by controlling intra-regional trade and investments in East Asia through the regionalization of manufactured production that vertically integrated regional economies to Japanese economy and promoted the rapid growth of intra-regional trade and capital flows. The IPNs were an informal mechanism of economic integration not built upon formal intergovernmental agreements but relied on informal linkages such as business relations and strong ties between private sector and government players (Peng, 2002; Yeung, 2009; Cai, 2010; Capannelli & Kawai, 2014).

The lack of experience in building regional institutions and the fact that informal mechanisms have encouraged cooperation and integration without imposing to states high sovereignty costs and binding commitments may explain the 'soft' form of Asian regionalism in comparison to 'hard' European regionalism distinguished by formal institutions (Evans, 2005; Rathus, 2010; Tan, 2011). This 'soft' form of regionalism comprises a set of governance principles known as 'ASEAN way': flexibility, informality and consensus. Among Asian governments, there is a general preference for non-binding commitments and establishment of regional institutions that operate according to imprecise rules and consensus-diplomacy instead of delegation of authority to a regional independent body. Principles of national sovereignty, non-interference and non-intervention are usually invoked to justify decisions that favor national interests over regional initiatives. Thus, regional intergovernmental institutions end to be large consultative and deliberative forums that lack authority to govern members' behavior and enforce rules that may interfere in domestic issues and reduce state sovereignty (Mahbubani, 1995; Acharya, 1997; Harris, 2000; Capannelli & Tan, 2014). Institutions such as the ASEAN Free Trade Area (AFTA), the East Asian Economic Group (EAEG), the Asia-Pacific Economic Cooperation (APEC), the ASEAN Economic Community (AEC), the East Asian Summit are examples of regional organizations that present 'ASEAN way' institutional features such as: decision-making based on consensus; non-binding and vague commitments; few enforcement mechanisms and; limited delegation of power to international secretariats and bureaucracies (if there is a permanent secretariat or staff, its tasks are restricted to technical research, information gathering, organization of meetings and conferences) (Kahler, 2001; Haggard, 2013; Pekkanen, 2013). In other words, these institutions have developed informal institutional environments that do not constrain states' behavior neither provide the basis for a regional cooperation governed by precise and binding rules (Haggard, 2014).

Among the various Asian regional organizations, one in particular has contributed to import the 'ASEAN way' into the CMIM's institutional design: the ASEAN Swap Arrangement (ASA). The ASA was established in August 1977 by the five original members of the ASEAN[79] as a multilateral swap arrangement to provide immediate short-term funds (US dollars in exchange of domestic currencies) to countries with temporary international liquidity needs. With the creation of the CMI in 2000, the arrangement was incorporated to the CMI network of BSAs and expanded to all 10 ASEAN countries.[80] If we compare the institutional framework of the CMIM and the ASA, we observe that the same institutional format – multilateral swap arrangement – was chosen for the CMI multilateralization. Despite the advances on the CMIM institutionalization in comparison to the ASA, such as the establishment of decision-making bodies, the creation of AMRO and the implementation of enforcement mechanisms (IMF link), the main institutional attribute of informality has remained: the non-binding commitment of providing funds. The ASEAN+3 countries have exchanged commitment letters among their central banks, establishing that they will just transfer funds to potential borrowers in case of a swap activation request. In other words, at the moment of signing of the CMIM agreement, members did not incur in an immediate decrease of their international reserves. Members' resources were not pooled into a fund but have remained under the control and management of national monetary authorities who have the autonomy of making them available only in event of a swap request. Moreover, both regional arrangements lack permanent secretariats and include an opt out clause that allows lending parties to escape from providing funds to a swap request in exceptional circumstances. As shown in Table 12, what the comparison of the institutional aspects of the CMIM and the ASA suggests is that ASEAN+3 countries decided to continue coping with cooperation challenges by adopting an

[79] Indonesia, Malaysia, Thailand, the Philippines and Singapore.
[80] When the ASA was established, the size of the arrangement was USD 100 million, and each member contributed with US$ 20 million. In 2000, the ASA was incorporated to the CMI swap network and extended to all 10 ASEAN countries reaching a total amount of USD 1 billion. In 2012, the total amount was increased again to US$ 2 billion.

institutional framework for the CMIM that that they have already known how it would work in terms of preserving states' control, autonomy and sovereignty.

Table 12: Comparison between the CMIM and the ASA

Institutional Attributes	CMIM	ASA
Format	Multilateral Swap Arrangement. Exchange of domestic currency for US dollars.	Multilateral Swap Arrangement. Exchange of domestic currency for US dollars, Japanese Yen or Euro.
Purpose	To address balance of payment and short-term liquidity difficulties in the ASEAN+3 region.	To provide short-term foreign exchange liquidity support for member countries that experience balance of payment difficulties.
Total Size	USD 240 billion	USD 2 billion
Financial Contributions	According to the share of each member in the arrangement.	According to the share of each member in the arrangement.
Maximum Swap Amount	An amount up to member's contribution multiplied by their respective purchasing multiples.	Limited to twice the committed amount by the respective participating member under the Arrangement.
Opt Out Clause	In principle, each of the CMIM parties may only escape from contributing to a swap request by obtaining an approval of Executive Level Decision Making Body. In exceptional cases, such as an extraordinary event or instance of *force majeure* and domestic legal limitations, escape is possible without obtaining ELDMB's approval.	The amount of swap requested by a participating member shall be provided by the other participating members in the weighted proportions of their respective commitment to the total facility amount under the Arrangement, except where a participating member has chosen to provide partial contribution due to exceptional financial circumstances or to opt-out on the grounds that it is under any of the IMF Policy Programs or that its foreign reserves are less than three months of retained imports.
Coordination of Swap Activation	Two countries will be appointed to coordinate the swap activation process when a request for drawing is made. Two Coordinating Countries shall be	There shall be an Agent Bank, to be appointed on a rotation basis on alphabetical order for a term of two years. The

	the two co-chairs of the ASEAN+3 Finance Minister Process, one Coordinating Country from ASEAN member countries and the other from China, Japan and Korea.	Agent Bank shall coordinate the implementation of the Arrangement.
Conditions to Access Funds	Submission of the periodic surveillance report and participation in the ASEAN+3 ERPD. To access funds of the CMIM-PL, the requesting country must meet 5 qualification criteria.	The requesting country shall include in the swap request an assessment of the country's economic situation and balance of payment outlook.
Credit Lines	CMIM-SF and CMIM-PL	No specification.
Surveillance	Independent Surveillance Unit – AMRO and the IMF.	No mechanism.
Decision-making	Fundamental issues: consensus at Ministerial Level. Swap Activation issues: ELDMB.	No specific body is designated for making decisions. Each lending member confirms to the Agent Bank its participation either fully or partially or its decision to opt-out.
Enforcement	AMRO monitoring and IMF link.	No mechanism.

Source: AFMM+3 2010; AFGM+3 2012; Memorandum of Understanding on the ASA, 17 November 2005.

As the evidences suggest, the CMIM's flexibility and informality are better understood taking into account not only the systemic and domestic conditions proposed previously but also the historical context of Asian regional economic cooperation and institutionalization. The 'ASEAN way' can be observed in rules and procedures of the arrangement such as the self-management of funds, the consensus decision-making applied to some issues and the limited authority of AMRO. Besides that, the failure of Japanese proposal – the Asian Monetary Fund – demonstrates the difficulty of ASEAN+3 countries in building formal organizations. Instead of creating a regional monetary fund that would require the transfer of national resources to an independent body, governments took a more cautious approach with the CMIM. They first agreed on building a network of bilateral currency swaps based on previous Japanese experience with the New Miyazawa Initiative. Then, despite ten years of institutionalization process, national authorities decided to maintain institutional informality and flexibility through the establishment of a multilateral arrangement on the basis of the ASA.

To conclude, it is also important to point out that the creation of the CMIM is part of a regional monetary and financial cooperation process that does not aim to achieve political integration or monetary union among ASEAN+3 countries. Many scholars have conducted analyses comparing the Asian regional monetary and financial cooperation with the European experience, making the common mistake of establishing an erroneous dichotomy between the European success and the Asian failure (Katzenstein, 1997). For instance, empirical studies applying the Optimum Currency Area (OCA) theory to East Asia were carried out using different country samples, time horizons and methodologies. For scholars, it is not clear what would constitute a suitable group of Asian countries that could pursue a successful plan of monetary integration. To illustrate, Eichengreen & Bayoumi (1998), based on previous studies (Goto & Hamada, 1994; Bayoumi & Eichengreen, 1994), have concluded that nine East Asian countries would satisfy the OCA criteria as Western Europe.[81] Other scholars have exhibited more skeptical outcomes, arguing that the lack of similarity in countries' levels of economic development and income per capita reduces the possibility of East Asia satisfies the OCA criteria (Zhang et al., 2001; Baek & Song, 2002; Lee & Barro, 2006).[82]

Regional monetary and financial cooperation, however, does not involve necessarily the creation or adoption of a common currency under the control of a common regional monetary authority. A large body of the literature on regional monetary and financial cooperation does not provide systematic analyses regarding other forms of monetary cooperation beyond the adoption of a common currency that can be observed especially among emerging and developing countries (Fritz & Mühlich, 2015).[83] Although the OCA theory is still the conventional economic thinking on studies about regional monetary and financial cooperation, it is not the most appropriate theoretical approach to understand recent developments in emerging and developing economies (Schelkle, 2001). Some studies on comparative regionalism have attempted to explain other varieties of regional monetary and financial arrangements in relation to the European model (Börzel, 2011; Börzel & Risse, 2012; Katzenstein, 2005; Mansfield & Milner, 1999; Telò, 2013). But, after the euro crisis, the

[81] For other authors who advocate for monetary integration in East Asia based on OCA criteria, please see Bayoumi & Mauro (1999), Yam (1999), Murase (2004) and Sakakibara (2003).
[82] The European monetary integration process has provided the primary empirical bases for the OCA theory. The theory takes a static perspective by assuming that countries should first reach a level of similarity or convergence of key macroeconomic indicators relevant for common monetary policy, such as inflation, unemployment, budget deficits, interest rates and exchange rates, and should have substantial cross-border flows of trade and factors of production to start a monetary integration process (Kenen, 1969; McKinnon, 1963; Mundell, 1961). In contrast, scholars from the OCA second generation argue that economic convergence and trade integration should not be taken as exogenous determinants of monetary integration. Instead, OCA criteria may be meet endogenously or *ex post*, that is, in a process in which monetary integration would foster more integration of trade, labor and financial markets (Frankel & Rose, 1997; Rose & Stanley, 2005; DeGrauwe & Mongelli, 2005).
[83] For systematized approaches on regional monetary cooperation among developing countries and emerging markets, please see Cohen, 2004; Fritz & Metzger, 2006; Fritz & Mühlich, 2010; Henning, 2011; Ocampo, 2006.

European monetary paradigm has lost its supremacy status, and scholars have turned their attention to understand regional arrangements considering specific historical, economic and institutional contexts from where they emerged. The OCA theory does not offer adequate analytical tools to evaluate other forms of cooperation that precede monetary unions such as policy dialogues, liquidity sharing mechanisms or exchange rate arrangements (Priewe, 2007). This diversity of regional arrangements reveals that regional monetary and financial cooperation does not need to follow a predetermined sequencing or a linear process towards full monetary integration – from trade integration to adoption of a common currency, after the convergence of macroeconomic criteria. It rather involves a complex process in which different forms of institutions and arrangements exist and are not mutually exclusive (Krampf & Fritz, 2015; Fritz & Mühlich, 2015). Essentially, when emerging and developing countries decide to cooperate on monetary and financial issues, they agree on jointly optimizing regional policies to manage economic shocks that may impact the whole region. Their concerns with respect to the establishment of regional monetary and financial mechanisms involve reducing macroeconomic volatility and increasing their capacity to protect themselves against sudden economic and financial disruptions (Bénassy-Quéré & Coeuré, 2005; Dieter, 2000; Cohen, 2004; UNCTAD, 2007). For these purposes, no monetary union would be needed neither regional arrangements should emulate the European integration sequencing (Fritz & Mühlich, 2015). The CMIM itself is the result of coordinated actions among ASEAN+3 countries to implement an emergency financing mechanism that may prevent regional economies from experiencing again the devastating effects of a financial crisis. In this sense, regional monetary and financial cooperation in East Asia can be understood as an oriented process instead of an agreement with specific planning. It is primarily a functional cooperation in which governments act collectively in response to national, regional and international conditions, not aiming to establish deep, precise, binding and formal institutions that might lead to political integration or monetary union (Evans, 2005; Park & Wyplosz, 2010; Mühlich, 2014).

Conclusion

Among the RFAs that are currently present in the international financial system, the CMIM appears as an 'empirically' deviant case due to its lower level of formality in comparison to the others. The regional Asian arrangement is not a regional fund *per se* but a multilateral swap agreement whereby the ASEAN+3 countries have agreed on not delegating authority to a regional organization (or permanent secretariat) to manage funds and conduct institution's operational activities. Through the adoption of a swap institutional format, members have ensured the flexibility and control over the management of their financial contributions, i.e. their foreign exchange reserves. The objective of the thesis was to investigate how and why the CMIM has maintained this informal institutional design since its origins. Following a process tracing methodology, the study sought to uncover the causal mechanisms that have led members to opt for establishing an informal institution. In such sense, the main contribution of this research was to examine the institutionalization process of the CMIM *per se*. In contrast to previous studies on the CMIM, this thesis was not intended to assess the CMIM's institutional framework in terms of its effectiveness in order to make predictions if the regional arrangement can become independent from the IMF; neither evaluate the CMIM's institution-building with respect to other initiatives in the wider context of East Asian economic regionalism; nor analyze the impacts of power relations between China and Japan and the influence of the US on the CMIM's developments. The thesis has focused on identifying which conditions and how they have operated to determine the existing institutional attributes of the arrangement.

The chain of evidences and steps constructed to make inferences about how the CMIM's institutionalization process took place and how it generated the outcome of interest – the informal institutional design – was characterized by a combination of systemic, domestic and regional conditions. To summarize, the causal process mechanism proposed here works as follows. The previous experience of ASEAN+3 countries with economic cooperation and institution-building has fomented the original preferences of states for more informal arrangements based on flexibility, non-binding commitments, imprecise rules, non-interference in domestic issues and consensus-diplomacy – the so-called 'ASEAN way'. These preferences have affected states' choices regarding the CMIM's institutional attributes in terms of flexibility autonomy, control, bureaucracy and softer rules. As shown in chapter 2, due to the traumatic experience of Asian countries with the IMF emergency loans in the aftermath of the 1997 Asian financial crisis, states have agreed on establishing a more informal liquidity support arrangement that involved lower costs – transaction, sovereignty, operating, change and exit costs – and offered superior institutional solutions and governance benefits such as less constraints, more flexibility to deal with uncertainty and reduced impact on state's authority and sovereignty. To recapture some of the informal institutional attributes discussed above, states have decided on: the swap format to maintain control over the management of their foreign exchange reserves, which comprise members' financial contributions to the CMIM; the establishment of lenient enforcement mechanisms and vague escape clauses for members not willing to provide funds in case of swap activation; the adoption of less rigid *ex ante* conditionalities and non-clearly defined *ex post* conditionalities (for the IMF-delinked portion); not delegating authority and independence to AMRO performs its activities neither transforming it as CMIM's official permanent secretariat. This part of the process tracing has corroborated the established propositions of the RDI framework regarding states' choices between formal and informal institutions. The process tracing, however, has not just focused on a top-down approach in which the unitary state assumption applied by RDI scholars emphasizes the central role of states as the entities engaging in activities that transmit causal forces through causal mechanisms. In chapter 3, I adopted a bottom-up analysis that has looked beyond the state level, putting domestic actors as the center agents of the CMIM's institutionalization process. Here, the process tracing has shown that choices regarding the institutional design of international institutions are made by domestic agents acting on behalf of the state. Most importantly, these institutional choices are not just a result of systemic conditions as proposed by the RDI literature, i.e. how players overcome common challenges inherent to any cooperation process – uncertainty, sovereignty costs, bargaining costs, enforcement problems, among others. To better understand the institutional design of international institutions, it is essential to consider the interplay between domestic and systemic conditions. In such sense, the operationalization of the causal mechanism has shown how domestic politics have affected the CMIM's informal institutional design through a chain of observable manifestations that have pointed out: first, the sources of power (*de jure* and *de facto*) that have allowed the Japanese Ministry of Finance and the Chinese Central Bank being the central government agencies to influence the CMIM's policymaking; second, their preferences with respect to institutional format and; third, the systemic conditions stemmed from international politics that might have constrained domestic agents' decisions and actions. The empirical analysis of the CMIM's institutionalization process has confirmed the central role played by the Japanese Ministry of Finance and the Chinese Central Bank in shaping the CMIM's informal institutional design.

The model of analysis proposed by this study to investigate the institutionalization process of the CMIM and its institutional design can also be applied to the other RFAs in a comparative perspective. To date, there is not any comparative study of the RFAs focusing on institutionalization process. A comparative analysis would help to understand the role of ministries of finance and central banks in different regional contexts as well as would contribute to comprehend how previous experiences with multilateral initiatives and systemic conditions related to cooperation processes have affected states' choices in other regions regarding the institutional design of RFAs. A comparative analysis would enable to determine the key variables or conditions among those suggested here (systemic, domestic and regional) that operate in RFAs' institutionalization process, making possible to claim for stronger theoretical generalizations and reinforce or disconfirm established propositions such as those offered by the RDI literature.

The study of RFAs, in particular the issue of institutional design, has been assuming substantial importance in understanding the prevailing configuration of the international financial system and in making predictions about its future architecture. The rise of RFAs has been characterized essentially by the dissatisfaction of emerging powers and developing countries with the reform process in global financial governance and the reluctance in relying on the IMF to tackle balance of payments difficulties. The amount of financial resources available through regional solutions indicates that global multilateral institutions may play a more limited role in ensuring international financial stability (Chin, 2010). Understanding the institutional design of the RFAs sheds light on how the international financial architecture may evolve. By analyzing the institutionalization process and institutional attributes of RFAs, we can observe if the international financial order is heading towards a more fragmented and diffused framework in which regional institutions can operate independently from global institutions; or towards a more cooperative framework in which regional institutions develop institutional mechanisms to coordinate activities with institutions at different levels – global, regional, bilateral and multilateral. In case of the CMIM, the analysis has shown that the regional arrangement may contribute to foment a more cooperative and informal financial order in the sense that the BRICS CRA replicates the CMIM's swap format and formal link with the IMF, and the bilateral swap agreements signed by China maintain the non-binding commitment of providing funds to regional neighbors and may act as complements to the CMIM’s and the IMF’s liquidity assistance with quicker disbursement of funds.

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