From Global to Regional Financial Governance? The Case of Asia-Pacific

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1 Introduction

Both the Asian financial crisis (1997–1998, AFC) and the global financial crisis (2007–09, GFC) unfolded serious deficiencies in global financial governance (GFG). The inability of global actors to provide credible crisis prevention and crisis management mechanisms encouraged the development of alternative solutions in the form of regional and plurilateral financial arrangements. As a result, in spite of the emergence of new global financial actors (e.g., Financial Stability Forum and subsequent Financial Stability Board), the last two decades have witnessed an unprecedented rise in the scope and intensity of regional financial cooperation. In particular, many Asia-Pacific[1] countries have become involved in various forms of regional financial cooperation (Sohn 2005; Amyx 2005; Boughton et al. 2017).

The chapter takes a closer look at financial arrangements in Asia-Pacific. It represents an attempt to "map" various forms of financial governance in the region. By doing so, it does not intend to provide an in-depth analysis of individual institutions. In line with the analytical model deployed in this volume, the chapter addresses the relationship between global and regional institutions of financial governance. The author assumes that following the Asian financial crisis and global financial crisis, multilayered financial governance structures have developed with regional financial arrangements (RFAs) complementing and partially substituting for global arrangements. Given the relatively insufficient theorization of regional financial governance,

[1]For the purpose of this study Asia-Pacific is defined as a region limited to Northeast Asia, South Asia, Southeast Asia, as well as Australasia.

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the chapter contributes to the deepening of the existing literature in this field. It is based mostly on literature review backed by analysis of official documents.

The chapter is organized as follows. The first section introduces the analytical framework for the study by presenting the concept of global financial governance and the rationale behind its regional dimension. The second section looks at the evolution of financial cooperation and its drivers in Asia-Pacific from the financial governance perspective. The third section presents an overview of the Asia-Pacific regional financial architecture. A more functional approach toward the regional financial governance is used in the fourth section that deals with the forms of financial cooperation mechanisms in Asia-Pacific.

2 Between Global and Regional Financial Governance

As indicated in the introduction to this volume, the global economic governance framework remains far from perfect and fully efficient. This statement is true also for its financial dimension where globalization of money and finance and recurring financial crises have brought new challenges for policymakers at all governance levels: global, regional, and national (Woo et al. 2016: 270–271).

Over recent years, several attempts have been made at the conceptualization of global financial governance. Randall Germain defines global financial governance as "broad fabric of rules and procedures by which internationally active financial institutions are governed" (Germain 2010) together with mechanisms leading to the creation of these rules (Germain 2001: 411). In line with this approach global financial governance may be seen as a complex of standards, market access arrangements, and coordination structures supporting the global financial market (Moloney 2017). By applying the concept of global public goods Kern Alexander et al. (2004) focus on the provision of financial stability as the main purpose of global financial governance.

The concept of financial governance is closely linked with that of monetary governance. According to Benjamin Cohen (2007), monetary governance focuses on currency and can be defined as the creation, regulation, and management of money as currency. In the modern era, the area of monetary governance has been almost exclusively handled by central banks and other public actors. This feature distinguishes it from financial governance which includes both public and private actors and covers mostly the creation of credit and exchange of financial assets (McNamara 2016). In practice, the spheres of money and finance cannot be separated, and many financial governance initiatives can be analyzed from the monetary governance perspective, and the other way round.

Although none of the abovementioned analytical frameworks excludes national and regional financial arrangements, the majority of GFG analysis focuses on global financial institutions and regulations. In most cases, the financial governance at the global level can be seen as a unique hybrid of institutions and regulations inherited from the Bretton Woods regime and those established (or reformed) as a result of the financial crises of the last three decades. From the institutional perspective, it can be argued that the contemporary system of global financial governance is based on five institutions with differently defined objectives, diverse legal and international status, and heterogeneous membership. These are, respectively, the G20-led Financial Stability Board (FSB), the International Monetary Fund (IMF), the World Bank (or rather the World Bank Group), the Bank for International Settlements (BIS), and the Organization for Economic Co-operation and Development (OECD).

All of the global financial governance institutions have their limitations. Jose Antonio Ocampo indicates that there is an undersupply of services by international financial institutions that have become more glaring due to the growing economic linkages created by the process of financial globalization. As a result, at least two of the global public goods associated with the financial sphere remain undersupplied as the global governance system lacks the ability to provide adequate mechanisms for preventing and managing financial crises, as well as for guaranteeing global macroeconomic and financial stability (Ocampo 2016: 1).

As the odds for comprehensive reform of the global financial architecture in the foreseeable future remain low, it is important to seek alternatives to the global financial arrangements. Even though the strongest financial and monetary governance mechanisms are usually provided at the national level (McNamara 2016), they also can prove insufficient. Hence, the recommendation to build or reinforce regional institutions mandated with preventing or mitigating crises for countries in their regions (Culperer 2016: 41).

Development of regional financial arrangements can be attributed to the broader concept of financial regionalism, i.e., regional-level cooperation in the field of economic and financial policies.[2] The role of regional institutions—often seen as complementary to global arrangements (Hirata et al. 2013: 7)—is to prevent, manage, and resolve crises as well as to provide conditions for stable development of the region. According to Kathleen McNamara (2016) regional financial governance encompasses two parallel processes: regional financial (and/or monetary) integration and regional financial (and/or monetary) cooperation. This type of governance is built upon regional financial arrangements that rely on a network of agreements "rather than having a set of rules generated by one regulatory global body" (McNamara 2016: 352).

In most cases, regional financial governance is limited to regional financial cooperation. According to Gordon de Brouwer and Yunjong Wang (2004), financial cooperation "relates to the mechanisms by which countries can provide financial

[2]Until recently the bulk of literature on regionalism in global economic governance has focused on trade-related issues. In contrast, financial cooperation on a regional basis has been relatively underdeveloped. This relative lack of interest in regional financial structures might be partially attributed to the fact that the global financial institutions—in spite of their numerous shortcomings—still represent a primary forum for intergovernmental cooperation. Another factor constitutes a rather unequal development across different regions with only Europe (or the European Union to be precise) promoting more advanced regional forms of regional financial governance (McNamara 2016: 352).

support to each other, regionally or globally, in the event of the financial crisis" (de Brouwer and Wang 2004: 1). It can be understood as the development of policy networks aimed at reducing risks associated with cross-border financial transactions. As such, monetary cooperation and integration can be—to some extent—included in the concept of financial cooperation.[3] Financial integration, on the other hand, can be seen as the process in which financial markets in neighboring economies become closely linked together and their participants acquire the same level of privileges (Stavarek et al. 2011: 2–4).

Changyong Rhee et al. (2013: 3) identify two generations of regional financial arrangements. The first generation was launched in response to the fall of the Bretton Woods in 1971 and subsequent shocks generated by the oil crisis of 1973. Regional responses to global financial instability included the Arab Monetary Fund created in 1976, the Association of Southeast Asian Nations (ASEAN) Swap Arrangement in 1977, and the Latin American Reserve Fund (established as the Andean Reserve Fund) in 1978. The second generation of regional financial arrangements—which includes new cooperation mechanisms in Asia-Pacific (e.g., the Chiang Mai Initiative, CMI)—was the result of recurring financial crises since the 1990s (Rhee et al. 2013: 5).

A well-designed regional financial framework can contribute to the provision of financial stability for three main reasons. First, the global efforts in this field are still inadequate and national efforts take more time to become effective. Second, as regional trade linkages and financial flows grow, an efficient regional framework for policy coordination allows for better adjustment. Third, as economic contagion tends to begin with a geographic focus, a regional framework for financial cooperation allows for more efficient crisis prevention, management, and resolution solutions. According to Ocampo (2016: 4–7) more active use of regional financial arrangements can strengthen the international financial architecture. He indicates that due to the heterogeneity of the international community the global and regional institutions can play complementary roles, following the principle of subsidiarity that has been central to the integration processes in Europe. Moreover, regional financial arrangements can "fill the gaps in the world's current highly incomplete international financial architecture." Furthermore, regional and subregional institutions may be better placed to capture and respond to specific regional needs and demands.[4]

The relationship between global and regional financial governance is well presented in the case of the global financial safety net (GFSN). GFSN can be described as "the set of arrangements to provide international liquidity to countries facing sharp reversals in capital inflows despite following sound economic and financial policies" (Truman 2013). It incorporates the liquidity assistance provided through the IMF and regional financing arrangements (RFAs), as well as bilateral or

[3]Such an approach is adopted in this chapter.

[4]For more political and economic arguments in favor of regional financial governance see Culperer (2016).

multilateral central bank swap arrangements (Volz 2016b: 3). Substantial input to the GFSN constitute mechanisms developed within Asia-Pacific.

3 Regionalization of Financial Governance in Asia-Pacific: Origins and Drivers

Over the last 30 years, regionalization processes in Asia-Pacific have been characterized by high level of dynamics: New institutions and forms of cooperation have been established and existing ones have undergone significant changes. This also applies to financial governance, where the region's typical paradox is in place. On the one hand, there is a widespread belief that Asia-Pacific is a region characterized by an insufficient level of institutionalization. On the other hand, it is a region where a number of more or less formalized forms of cooperation with overlapping goals and areas of competence are present (Hamanaka 2010: 1).

Both developed and developing countries of Asia-Pacific participated in the post-World War II financial and monetary regime being active members of the IMF and the World Bank Group. Yet only a few players from the region (e.g., Japan and Australia) could have been regarded as integrated with global financial structures and having an impact on their governance. In the case of the majority of developing representatives of the region participation in global financial governance had been limited to preferential loans offered by multilateral development banks.

As for the regional financial architecture, at the first glance, it might seem that it has been largely shaped only in the last two decades as a response to consecutive financial crises and the inability of global financial institutions (IMF in particular) to address them. Yet financial cooperation in the region is not unprecedented and its elements can be traced back as far as to the 1950s first central bank cooperation organizations and the Asian Development Bank (ADB) have been created. Another early input into regional financial cooperation constituted the creation of the Association of Southeast Asian Nations (ASEAN) in 1967. Although ASEAN initial goals only indirectly related to money and finance, today the organization can be named one of the main drivers of financial regionalism.

Significant changes in the region's financial architecture began after the end of the Cold War when the then Deputy Minister of Finance of Japan, Tadao Chino, proposed cyclical meetings of the Ministers of Finance of Asia-Pacific region. In 1992, this initiative took the form of the so-called Four Markets Group (FMG) that included Japan, Australia, Singapore, and Hong Kong. Since 1997, the meetings have been extended to include China and the USA (the Six Markets Group). Given the similar level of financial development of participating countries, this group seemed to have been an optimal forum for discussion on cooperation in the region, but the initiative froze after the Asian financial crisis (Hamanaka 2010: 7–9).

Since the early attempts at creating regional financial governance structures in Asia-Pacific, several factors have been affecting financial cooperation in the region.

After the fall of the Bretton Woods regime in the 1970s, it was mostly the dynamic socioeconomic development of the countries of the region together with the growing trade linkages that shaped financial cooperation mechanisms. Export-oriented development policies fostered deepening of trade linkages within the region and beyond. This process has been accompanied by the gradual removal of capital controls and subsequent liberalization of financial sectors. As a result, some countries in the region have become relatively well integrated with international capital markets (Kuroda and Kawai 2003: 2).

Although geographical proximity is not imperative for financial cooperation and integration, the specifics of Asia-Pacific significantly affects the forms of regional financial governance in place (Pacific 2002: 9–10). The region brings together both highly industrialized countries and representatives of the least developed countries with diverse levels of economic and financial development (Arner and Park 2011: 129). This differentiation in terms of financial development has often been seen as a barrier to regional financial integration and cooperation (Auster and Foo 2015: 24). Among very few similarities of the Asia-Pacific financial system, it is their bank-oriented nature that is usually underlined (Szilagyi and Batten 2004: 58).

Characteristic for the financial cooperation in Asia-Pacific prior to the Asian financial crisis was the fact that most regional financial arrangements could have been classified as spillovers from integration and cooperation processes in other areas, most notably trade liberalization. Initiatives of exclusively financial nature were almost nonexistent. Even nowadays financial integration and cooperation in the region are considered to be side effects of financial integration at the global level rather than products of a coherent strategy for regional cooperation. Thus, the early development of financial governance structures in Asia-Pacific has often been described as a market-led process rather than a policy-led process (Nair 2008: 114–115). It was a long process before regional governance mechanisms have undergone a shift from market-driven regionalization to institutionalized regionalism (Langhammer 1995). Nevertheless, the regionalization processes in the region and Asia-Pacific regionalism continue to represent the case of "open regionalism." Countries of the region attempt to be part of the global financial governance structures, and simultaneously pursue regional cooperation policies together with developing financial and monetary relations with countries from outside of the region (e.g., Americas or Europe) (Drysdale 1998).

This "open" (or hybrid) nature Asia-Pacific regionalism contributes to unequal and asymmetrical development of regional governance structures with East Asia being the major "hub" for financial cooperation and the most financially integrated subregion. However, many financial initiatives that begin in East Asia are subsequently extended to include other countries of Asia-Pacific (Mayes 2009: 1; Milner 2003: 285).

Another factor affecting the regionalization of financial governance in Asia-Pacific is the role of individual economic (and political) powers in the region. Back in the 1980s, many regional initiatives were stalled because they were proposed by Japan whose domination was feared by many countries in the region. Today concerns about Japan taking over control over the region have been replaced by the anxiety caused by the rapid growth of Chinese presence in the region. Moreover, the regional geoeconomic and geopolitical situation remains very much affected by the USA (Kangyu 2011: 72; Yuan and Murphy 2010: 131). The US presence in the region is manifested inter alia through the dominance of the US dollar as a reserve currency in the region. Hence, efforts to reduce reliance on the US dollar provide another incentive to expand regional financial cooperation.

Regional financial cooperation is fueled also by the proliferation of free trade agreements (FTAs) that usually include clauses liberalizing trade in financial services. A good example of a comprehensive FTA in the region constitutes the FTA between ASEAN and China (Zhang and Li 2010: 3). Intensification of financial cooperation in the coming years will be further facilitated by a number of initiatives concerning economic cooperation, both of an intra-regional nature and covering a much wider area. These include the implementation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the completion of negotiations on the Regional Comprehensive Economic Partnership (RCEP) (Yuechun 2013: 109–114; Ravenhill 2003: 302–303; Khan et al. 2018).

Xiaoyan Zhang and Haitao Li (2010: 4) describe the institutionalization of regional financial governance as a crisis-driven process: The consecutive financial crises have increased demand for insurance against economic shocks as the gaps in the insurance mechanisms provided mostly by the Bretton Woods institutions have been exposed. As a result, alternative insurance mechanisms—both national and regional—have been developed over the years and regional safety nets established as necessary complements to the global financial safety net. This statement holds true also for Asia-Pacific where the Asian financial crisis constituted a significant turning point in terms of regional financial governance (Rhee et al. 2013: 3).

The Asian financial crisis can be regarded as a catalyst accelerating financial integration and cooperation processes in Asia-Pacific. It provided a direct impetus for countries to recognize the value of financial regionalism. Many economies in the region found themselves subject to similar shocks and contagion, leading to volatile capital movements and the risk of "sudden stops" and reversals of capital flows. Despite the fact that the crisis affected mostly East Asia, many of the initiatives taken during the struggle with its effects included a much wider membership. In the aftermath of the crisis, many policymakers in the region assumed that only the strengthening of regional financial stability mechanisms can protect Asia-Pacific from further crises. This belief was fueled by the failure of the international financial institutions, IMF in particular, to meet the region's demand for short-term liquidity. Thus, the aim of regional cooperation became not the only provision of financial stability but also gaining independence from global financial institutions (Rajan 2008: 31–32; Park and Wyplosz 2008).

Individual financial cooperation efforts with Asia-Pacific subregions that followed the Asian financial crisis can be regarded as part of a global tendency toward the strengthening of regionalism. These developments include the launch of the European Economic and Monetary Union (EMU) as well as the advancement of economic integration in the Americas (Yuan and Murphy 2010: 129). Furthermore, the formation of regional financial arrangements can be interpreted as a consequence of dissatisfaction with the stalled process of reform of the international financial system (Park 2016: 228).

The global financial crisis of 2007–2009 and the subsequent Eurozone sovereign debt and banking sector crisis of 2011–2012 added to the urgency for greater financial cooperation. In the aftermath of the GFC, the multilayered international financial governance regime has been strengthened in order to address three major forms of cooperation: crisis prevention, crisis management and resolution, and market strengthening. In Asia-Pacific, the crisis effects differed across countries depending on the degree of economic and financial openness, as well as on dependency on external demand and credit. Relative resilience to the crisis displayed by some of the markets proved that the development of national and regional financial arrangements can constitute a viable anti-crisis measure that led to further advances in developing regional financial architecture (Park 2011: 2).

4 Mapping Financial Governance Institutions in Asia-Pacific[5]

Within almost seven decades of financial development, Asia-Pacific countries managed to build numerous governance mechanisms that encompass a significant number of institutions with duplicate and often purely defined competencies and differentiated membership. Although East Asian countries constitute a center of monetary and financial cooperation in the region, most of the arrangements—directly or indirectly—also include South Asian countries, Australia, or even the USA.

In terms of institutionalization financial cooperation in Asia-Pacific was developing in two major tracks. Firstly, it was cooperation between central banks which dates back to the 1950s. The second direction was intergovernmental cooperation, which can be exemplified by the financial cooperation mechanisms pursued within ASEAN (Mayes 2009: 4).

There are currently three financial cooperation organizations of central banks in Asia-Pacific. These are (1) the South East Asia, New Zealand and Australia Forum of Banking Supervision (SEANZA); (2) the South East Asian Central Banks (SEACEN); and (3) the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP). Among the three, SEANZA is the most comprehensive in terms of membership. Its activity is mainly focused on the exchange of information between central banks and training for central bank employees. In addition to that SEACEN is more of a technical institution conducting research on the financial systems of the region. The youngest of the central bank cooperation bodies—EMEAP (established in 1991 following the initiative of Japan and Australia)—appears currently to be the most influential unit of this type in the region. Apart from information exchange and staff training, its objectives include supervision over financial institutions in the region or supporting the development of financial markets (Kuroda and Kawai

[5]This section constitutes a shortened and updated version of the analysis provided in Jędrzejowska (2016).

2003: 17). Because of its involvement in establishment of regional emergency liquidity provisions and development of regional bond markets EMEAP is often regarded as a leader of regional financial cooperation (Jung 2008: 121).[6]

With the exception of ASEAN most intergovernmental financial cooperation organizations in Asia-Pacific have not been directly involved in specific financial projects until the AFC. In spite of the fact that financial cooperation constitutes only a small share of ASEAN's activities, it is one of the first organizations in the region to have taken a closer interest in financial cooperation. From the institutional perspective, ASEAN's contribution to Asia-Pacific financial governance is twofold. First, it contributed to the creation of the regional expanded cooperation platform in form of ASEAN+3 (ASEAN plus China, Japan, and the Republic of Korea) that—in turn—developed regional emergency liquidity support mechanism (CMI). Next, together with Australia, New Zealand, and India ASEAN+3 became ASEAN+6 which is a driving force behind both the RCEP as well as the East Asia Summit (EAS). Second, since the Asian financial crisis ASEAN has initiated several cooperation mechanisms (e.g., ASEAN Surveillance Forum and a permanent crisis monitoring team). It also attempted at developing regional integration strategies for the banking sector, capital markets, and insurance services markets. These initiatives have resulted in countless strategies, road maps, working groups, and committees (e.g., 2020 ASEAN Banking Integration Framework, Roadmap for Financial Integration) (Almekinders et al. 2015). Another ASEAN-led initiative constitutes the ASEAN Economic Community (AEC) which is the most advanced regional framework for financial regulatory harmonization in Asia (Kawai and Morgan 2014).

Further intergovernmental cooperation processes that are taking place in Asia-Pacific—the Asia-Pacific Economic Co-operation (APEC) and the Asia–Europe Meeting (ASEM)—address financial governance on a limited scale and work mostly through meetings of member states' finance ministers. APEC's contributions to regional financial cooperation include the establishment of the Asia-Pacific Financial Forum (APFF) which is meant to coordinate financial integration processes in Asia-Pacific (Jung 2008: 121).

Another group within the intergovernmental cooperation mechanisms constitute regional multilateral development banks providing development financing. Until recently, ADB was the most influential development finance institution in the region. In addition to development assistance, it provided also comprehensive research in terms of financial cooperation and development as well as contributed to the establishment of the Association of Credit Rating Agencies in Asia (ACRAA) (Kanamori 2005: 5) or the creation of the Asian Financial Stability Dialogue (AFSD) (Kawai 2011: 139; Berger 1999: 1015). Yet with the progressing reform of the development finance architecture, the ADB position in the region appears to

[6]In addition to the specialized central bank organizations, since 1997 there is also ASEAN+3-based platform for central bank cooperation in the form of the meetings of central bank governors and (since 2015) meetings between monetary authorities and finance ministers.

be challenged. First, China and India have been instrumental in establishing the BRICS' (Brazil, Russia, India, China, South Africa) New Development Bank (NDB). Next, it is the possible developmental impact of the Chinese Belt and Road Initiative together with the establishment of the Asian Infrastructure and Investment Bank (AIIB). Finally, ADB's financial mechanisms need to be adjusted to the new development finance framework based upon the "Maximizing Finance for Development" principle.

In addition to central bank cooperation organizations and intergovernmental organizations and cooperation platforms in Asia-Pacific, there is a number of organizations and initiatives that do not fit into this framework. These include—among others—some public–private organizations and think tanks. A good example of such a forum constitutes the Pacific Economic Cooperation Council (PECC). It is an unofficial organization gathering representatives of business, academia, and government officials. PECC can be considered a leader in initiating (and—indirectly—implementing) economic norms and regulations in the region, including financial ones (Aggarwal 1993: 1033; PECC 2003).

Finally, strengthening regional structures does not equal rejecting global structures (McNamara 2016). In line with this statement, since the AFC and GFC most Asia-Pacific countries have significantly improved their position in the international financial system through involvement in the works of the G20, FSB, BIS, G10 Committees, or the International Organization of Securities Commissions (IOSCO) Asia-Pacific Regional Committee (Sohn 2007: 2).

5 Selected Forms of Financial Cooperation in Asia-Pacific

From the functional perspective, the regional financial governance system includes financial regulations adopted by regional financial cooperation bodies and the specific cooperation mechanisms they have established. Masahiro Kawai and Yung Chul Park (2015: 33–44) indicate that regional financial cooperation in East Asia has been pursued on three fronts: (1) regional economic surveillance; (2) regional short-term liquidity support mechanisms; and (3) local currency bond market development. This classification of regional financial cooperation mechanisms allows its application also to the broader region of Asia-Pacific. It has to be stressed that all the presented mechanisms have their functional equivalents both at the national and global levels. Moreover, the role of RFAs in crisis prevention and management is seen as complementary to global arrangements (Darvas 2017: 44).

Regional Economic Surveillance At the global level, economic surveillance relies mostly on the IMF's Article IV consultations which include also Asia-Pacific. Regional surveillance mechanisms in Asia-Pacific constitute another element in the regional governance network that developed in the aftermath of the AFC. The beginning of regional surveillance cooperation dates back to November 1997 when the so-called Manila Framework Group was created (Wang and Yoon 2002: 98). In the same year, ASEAN launched its Surveillance Process (ASP). Yet the most advanced surveillance and information exchange mechanisms were developed within the ASEAN+3 framework. In May 2000 ASEAN+3 members launched the Economic Review and Policy Dialogue (ERPD). As part of this process, ASEAN+3 Finance Ministers meet once a year to exchange information and discuss the harmonization of indicators. ERPD focuses on macroeconomic risk management, corporate finance, monitoring of capital flows in the region, strengthening of national financial and banking systems, reform of international financial architecture and strengthening of regional cooperation mechanisms (Kuroda and Kawai 2003: 15).

After the GFC it was determined that the EPRD shows two major shortcomings: (1) lack of involvement of central bank governors and (2) limited institutional support to the process (Kawai and Park 2015: 34). Hence, in the aftermath of the global financial crisis, the ASEAN+3 authorities established the ASEAN+3 Macroeconomic Research Office (AMRO). Initiated in May 2012 AMRO combines meetings of central bank governors and finance ministers. It benefits from the support of the IMF, ADB, Bank for International Settlements, or OECD. It aims to directly support the functioning of the CMIM, in particular by supporting the decision-making process of the Chiang Mai Initiative (Arner and Park 2011: 138).

Short-Term Liquidity Support The AFC was to some extent a liquidity crisis resulting from the outflow of foreign capital. Given the IMF's failure to provide sufficient liquidity to the region (East Asia in particular) a number of Asia-Pacific countries have chosen to limit their reliance on IMF financing and focus on the accumulation of foreign exchange reserves. Further actions included the implementation of regional liquidity provisions (Fritz and Mühlich 2019: 99–101). Origins of this type of financial cooperation in Asia-Pacific can be traced back to 1977 when the ASEAN Swap Agreement (ASA) was concluded. After the AFC, in addition to several bilateral swap arrangements (BSAs) in the region, the main step toward regional short-term liquidity support constituted the CMI (Kawai and Park 2015: 35).

Initially, CMI was no more than a network of BSAs between the ASEAN+3 countries. Yet after the global financial CMI was converted into "the form of self-managed reserved pooling arrangement governed by a single contractual agreement" (Kawai and Park 2015: 37) instead of a network of BSAs. CMI Multilateralization (CMIM) became effective as of March 2010. Since then its initial size of USD 120 billion has been doubled. Contrary to CMI its multilateralized form includes both crisis prevention and crisis response tools. It is also partially separated from the IMF.

Even though the ASEAN+3-led CMI and CMIM have become the most comprehensive regional crisis prevention tools, they are not the only representatives of this type of cooperation in the region. Even before the AFC, a system of cooperation based on repo agreements existed between EMEAP and the US Federal Reserve. Another initiative in the region was the so-called New Miyazawa Initiative (NMI) proposed by Japan during the 1997 crisis. Moreover, in 1998, the ASEM Trust Fund (ATF) was launched (Yeo 2003: 50).

Local Currency Bond Markets The idea of regional bond markets started with the realization that the underdevelopment of bond markets in the region and the resulting excessive dependence on bank-intermediated financing and foreign short-term financing were major causes of the Asian financial crisis of 1997–1998 (Park et al. 2016: 264–265; Volz 2016a: 9). The crisis showed that even though some of the Asia-Pacific countries were relatively well integrated with international financial markets, the financial integration within the region was either highly asymmetrical or nonexistent (Mercereau 2006).

A direct response to the Asian crisis was a series of initiatives aimed at strengthening the regional debt market. Analogically to the abovementioned forms of cooperation, the most important projects were launched by EMEAP and ASEAN +3. Back in 2003 EMEAP supported the creation of the Asian Bond Fund (ABF) Initiative (Jung 2008: 126; Zhang and Li 2010: 6–8). The current edition of the ABF (ABF2), comprising the Pan-Asia Bond Index Fund (PAIF) and eight single-market funds, is managed by private sector fund managers with the BIS as the administrator (Government of Hong Kong 2018). In turn, the Asian Bond Market Initiative (ABMI) has been launched by ASEAN+3. Initially, it was meant to increase the liquidity of the regional bond markets, but later shifted more toward assistance in developing regional market infrastructure (Dent 2005: 392).

One of the drawbacks of both ABF and ABMI constitutes insufficient involvement of private sector actors in the form of investors, financial intermediaries, stock exchanges, or credit rating agencies. These should be included in the ASEAN+3 Asian Bond Market Forum (ABMF) (Kawai and Park 2015: 43). ASEAN+3 established the ABMF in 2010 as a common platform to foster standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region. Among other initiatives, ABMF is developing an ASEAN+3 Multi-currency Bond Issuance Framework, a common regional bond issuance program in the ASEAN+3 region (Villafuerte and Yap 2015: 35–36).

In addition to the abovementioned mechanisms of crisis prevention and management other dimensions of financial cooperation in Asia-Pacific can be listed. One of them constitutes broader efforts to increase regional economic and financial integration both through intra-regional trade linkages and further advances in financial market integration.[7] Another issue is the deepening of monetary cooperation. Last but not least several regional developments have been taking place within the architecture of development financing (Ocampo 2016: 5).

6 Conclusions

This chapter has shown that financial governance both at the global and regional level is characterized by a high degree of diversity and complexity. The regional financial arrangements can complement the global regulatory and institutional framework by addressing its shortcomings, most notably undersupply of liquidity

[7]Initiatives in Asia-Pacific include also broader framework of capital market integration coordinated by the ASEAN Capital Markets Forum (ACMF). See Tamaki (2013).

provisions. As a result, global and regional financial governance structures can jointly contribute to the provision and maintenance of financial stability.

In the case of Asia-Pacific processes of regional financial cooperation have been accelerated by the Asian financial crisis and—to a lesser extent—global financial crisis. As of today, two organizations seem to be the leading financial cooperation in the region. These are the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP) and the ASEAN+3 Cooperation (ASEAN plus China, Japan, and the Republic of Korea). It was prevalently within these frameworks that the regional surveillance mechanisms, short-term liquidity provision mechanisms, or initiatives aimed at deepening of local currency bond markets developed.

Yet even though financial and monetary governance in Asia-Pacific has been significantly strengthened over the last 30 years, its construction cannot be regarded as a completed process. It remains a "work in progress" as the governance processes and membership structure in regional cooperation bodies remain asymmetrical and the financial cooperation process in the region appears to be missing precise long-term strategy. Moreover, it is uncertain whether the present institutional arrangements are adequate to preserve stability in Asia-Pacific. This question together with the monetary cooperation and national financial sector development requires further analysis.

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