Security Still Trumps Finance in East Asia
By Benjamin J. Cohen

What drives the relationship between regional finance and security in East Asia? Financial co-operation in the region, long promoted in principle, is constrained in practice by underlying security tensions. Yet, over time, tentative steps toward closer monetary and financial relations can have the effect of moderating regional security strains as governments become more accustomed to working with each other and interests become more closely intertwined. Efforts to promote financial regionalism can be expected to persist, but in the absence of a fundamental shift in regional politics, tangible achievements will most likely remain modest for a long time to come.

The Chiang Mai Initiative
To date, East Asia’s most notable financial accomplishment has been the Chiang Mai Initiative (CMI), launched in May 2000 by ASEAN+3, the 10 members of the Association of Southeast Asian Nations plus China, Japan and South Korea. Conceived in the wake of the 1997 Asian financial crisis, the CMI established a basis for mutual liquidity assistance in the form of a network of bilateral swap arrangements (BSAs). At its peak, the swap network attained a nominal size of some $60 billion. And then, early last year, under the label Chiang Mai Initiative Multilateralization (CMIM), resources were doubled to $120 billion and pooled to enhance the amounts that any single country might draw when in need.

Great hopes have been placed in this mechanism as the foundation for closer financial and monetary relations in the region. Of particular importance, it is said, is the commitment under the CMIM to a new joint decision-making process. As the common pool supersedes bilateral swaps, access to loans will be decided by a majority vote — in principle, a giant step toward regional financial integration.

In practice, however, there seems rather less here than meets the eye. The total amount of money involved, while a substantial increase from the existing BSA network, is still trivial in relation to potential need. Moreover, governance of the system will continue to be based on the East Asian tradition of consensus, minimizing any compromise of national sovereignty. Governments continue to operate more or less autonomously, tailoring their monetary and exchange-rate policies to their individual preferences. Payment financing is still dependent, first and foremost, on national reserves held in central banks.

Overall, therefore, one has the impression that the CMIM is largely of symbolic value, and that it signals little more than a minimal spirit of comity. Its practical impact has not been dramatic, and more than a decade after its debut, no participating country has yet drawn a single loan from the CMI/CMIM.

Explaining the Record
What explains the modesty of the record to date? Most discussions focus on economics, highlighting structural and institutional differences among the economies of the region. But none of these barriers is necessarily insurmountable, given sufficient will. The real problem is political. Security tensions — anxieties over possible threats or conflicts — lead governments to seek to preserve as much room for maneuver as possible. For all the talk of financial regionalism in East Asia, little real progress is possible without a significant moderation of underlying rivalries and animosities.

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Should we be surprised, then, that the results of financial regionalism have until now been so unimpressive?

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