



CMI-CMD

Chiang Mai Initiatives and Chiang Mai Declaration

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Rationale of East Asia RFA

- Capital account crisis in 1997-98

ASEAN concerns on hedge fund

Lacking of cooperation (Regional problems)



ASEAN+3

Chiang Mai Initiative (CMI)

Self-help mechanism

Swap Arrangement/Surveillance System/
Peer Review

A proposal: Beyond CMI

To go above 10 % (Maximum Trust)

1. *Effective capital account monitoring system* (Short-term capital flows—example Thailand and Malaysia)
2. Proposed *out-placement* of Foreign reserves to reduce moral hazard problems
 - 2.1 Identify short-term and volatile capital inflows

A proposal: Beyond CMI

2.2 A certain portion of new short-term capital inflow (40%) were to invest in other member central bank → out- placement

2.3 when capital reverse

Use 60% kept at home first (first line of defense)

Used 40 % (second line of defense)

Use ASA and BSA 10 % and above 10 % (third line of defense)

A proposal: Beyond CMI

2.4 Effective monitoring should reveal and provide diagnostic of abnormal short-term capital flows and possible currency attack

2.5 Those who suffer traditional current account crisis should not eligible for ASA and BSA, but work under IMF program

A Proposal: Beyond CMI

3. As out-placement continue and getting larger, it might develop into Asian Currency Fund (ACF) and institutionalized.
4. Size of reserve pool depend very much on exchange rate regime in the region
Single currency pegged needs larger pool of reserves to counter the movement than common basket pegged.

Asian Bond Market in the RFA Framework

1. Out-placement (40 %) can be invested in Asian Bond
2. Stimulating transparency and information flows for surveillance system
3. Stimulate the necessary financial infrastructure for future cooperation
(Securitization, credit rating, credit guarantee and enhancement, currency swap)

Progress on ASIAN BOND:

Demand Side

- **EMEAP** sets up Asian Bond Fund (ABF) for an initial investment (small in size)

Supply side

- **AFMM+3**

(New product/Securitized Asset Backed Bond/ Credit guarantee)

Infrastructure

AFMM+3 & APEC FMM (Appropriate infrastructure development)

I. Executives' Meeting of East Asia and Pacific Central Banks: (EMEAP)

| Actions | Date |
|--|-----------------------------|
| •EMEAP to undertake study on possibility to invest in local currency denominated debt instruments. | Jul 2003 to Dec. 2004 |

II. ASEAN + 3 Finance Ministers Meeting: (AFMM + 3)

| Actions | Date |
|---|------------------------------|
| <ul style="list-style-type: none">•To consider technical and operational issues to structure:<ul style="list-style-type: none">- Asset-backed bond- Credit Guaranteed/Enhanced bond- Currency Basket Bond | Feb. 2003 to Dec. 2005 |

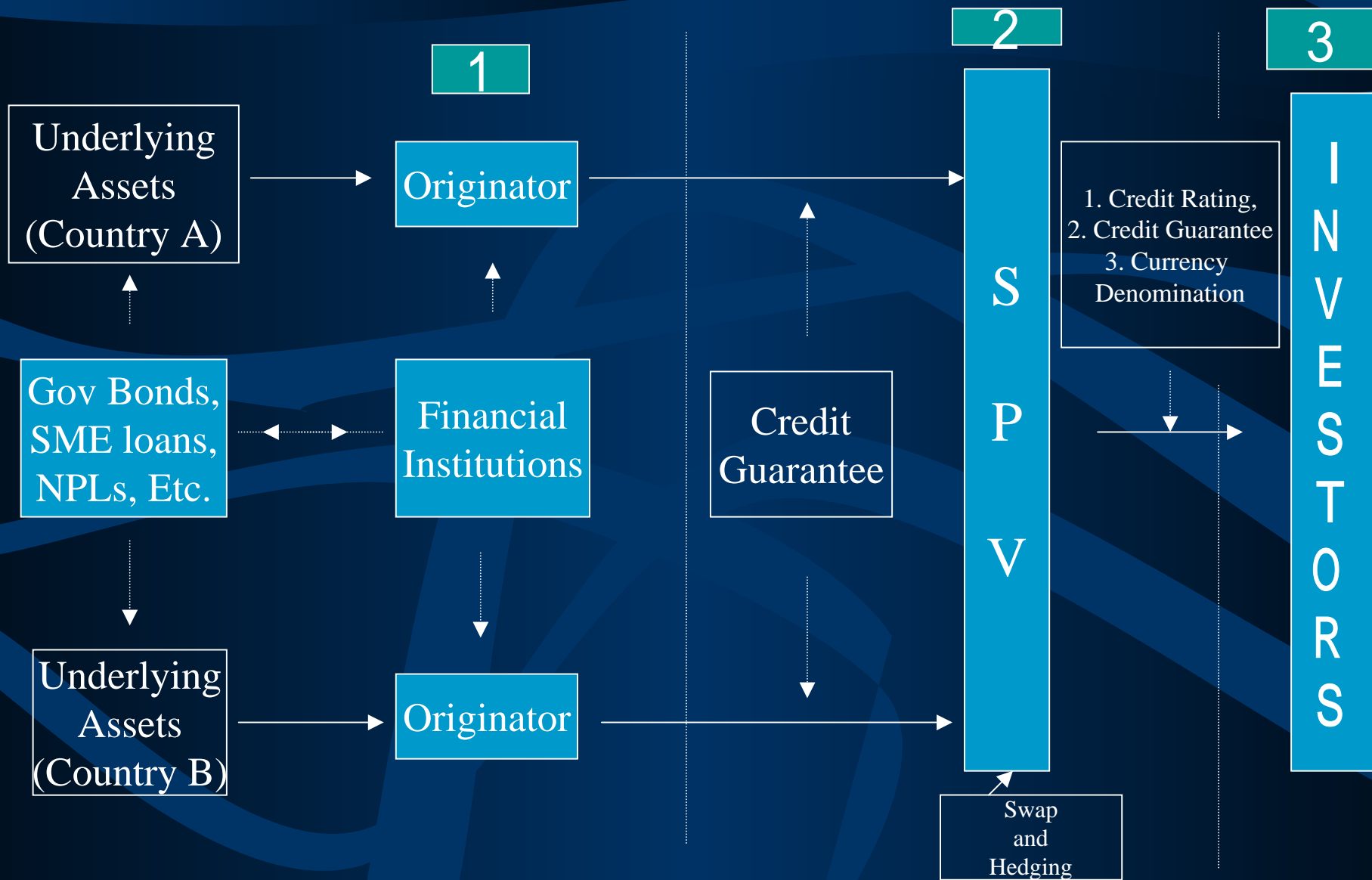
III. AFMM + 3 & APEC Finance Ministers' Meeting (APEC FMM)

| Actions | Date |
|---|---------------------------------------|
| <ul style="list-style-type: none"> • <u>APEC FMM</u>: To identify impediments and draw action plans to develop securitization and credit guarantee markets | <p>Sep. 2002 to Dec. 2004</p> |
| <ul style="list-style-type: none"> • <u>AFMM+3 & APEC FMM</u>: To consider appropriate infrastructure to develop ABM <ul style="list-style-type: none"> - Taxation&Accounting - FX Controls - Laws & Regulations - Credit Guarantee - Clearing & Settlement - Credit Rating - Hedging Facilities - Etc. | <p>Sep. 2002 to Dec. 2008</p> |

IV. Asia Cooperation Dialogue: (ACD)

| Actions | Date |
|--|---------------|
| <ul style="list-style-type: none">• 1st Meeting of ACD WGFC<ul style="list-style-type: none">- Roadmap to Develop ABM- CMD on ABM Development | May 12, 2003 |
| <ul style="list-style-type: none">• Prime Minister of Thailand to announce CMD with ACD member countries' support | June 22, 2003 |
| <ul style="list-style-type: none">• ACD WGFC Meetings to take place on a regular basis | 2004-onwards |

New Products



Thailand's Proposal of New Products

