Staff Paper No. 88

RETHINK POLICY COLLABORATION

Hookyu Rhu
Choon Seng LIM, Vincent
Leng Choo ONG, Vivien[1]

November 2012

1. The paper was presented at the 2nd CEMLA-SEACEN Conference "The Role of Central Banks in Macroeconomic and Financial Stability: The Challenges in an Uncertain and Volatile World", Punta del Este, Uruguay, on 15-16 November 2012. The authors would like to thank fellow colleagues, Dr. Dongkoo Chang for his useful comments and suggestions and Ms Seow Yun Yee for her editorial work. The views of this paper represent those of the authors and not The SEACEN Centre.

Staff Paper No. 88
RETHINK POLICY COLLABORATION

© 2012, The SEACEN Centre

Published by The South East Asian Central Banks (SEACEN)
Research and Training Centre
Level 5, Sasana Kijang
Bank Negara Malaysia
No. 2, Jalan Dato' Onn
50480 Kuala Lumpur
Malaysia

Tel. No.: (603) 9195 1888
Fax No.: (603) 9195 1802 / 1803 / 1804
Website: www.seacen.org

ISBN: 978-983-9478-22-8

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form by any system, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the copyright holder.

Printed in Malaysia by Graphic Stationers Sdn. Bhd.

Table of Contents

List of Charts

Abstract

This paper examines the scope of central banking cooperation in Asia against the backdrop of global integration. We ask the question on how multilateral organisations can be made more effective in the effort to promote policy collaboration. In this region, there is currently no initiative or discussion on the possibility of merging different economic groups, even those with similar interests. Notwithstanding the advantage of cross-collaboration between different regional and multilateral organisations, we feel it is time to rethink the regional grouping arrangement.

RETHINK POLICY COLLABORATION

1. Why Cooperation?

Growing interdependence has profound ramifications over the way organisations act and make decisions. Organisations depend on their employees to work productively, on investors to purchase and hold their stock and on government to provide legal and physical infrastructures for economic development. In return, everyone collectively depends on shared and natural resources. Without doubt, in the new age, no organisation can survive on its own without some form of interdependence. Organisations and individuals can collaborate and leverage on technology to work together in innovative ways to harness the explosion of knowledge and innovation to spur social development, boost growth and value add to cultural, political and economic systems, i.e., mass collaboration is needed (Tapscott and Williams, 2011). To quote Tapscott and Williams (2011, p.294), *"[t]he closed, hierarchical, and static regulatory structures of today must give way to new processes that embody values of openness, empowerment, inclusiveness, and knowledge sharing. In the same vein, organisations need* ***coopetition***[2]*. Coopetition is the need to cooperate yet compete to achieve the desired results"*.

Central banks are not any different from any organisations such as financial institutions performing a range of specialised operations. Like any commercial institution, central banks need to demonstrate effectiveness and efficiency (Mendhurst, 2011). As today's era of financial integration brings new complex challenges to central bankers in carrying out their roles in preserving monetary and financial stability, cooperative solutions can lead to superior outcomes in a coopetition world.

---

2. A word coined by Nadar, the CEO of Novell, and introduced into strategy research by Brandenburger & Stuart (1996).

2. Cooperation and Collaboration: Sharing

The benefit of collaboration among central bankers is obvious. It allows them to keep abreast with the developments in each other's jurisdictions by leveraging on each other's experience and knowledge to address any possible potential risks and vulnerabilities in the domestic as well as regional markets. In this context, a certain degree of 'openness' in information sharing is demanded. According to Tapscott and Williams (2011), effective sharing would require a relook at the concept of Intellectual Property (IP) as it needs releasing and handing over of some kind of "assets[3]. 'Openness' is thus necessary to ensure there is no "ring-fencing" in favour of national interest. For instance, looking at the risk supervision point of view, without openness, when problems begin to surface, there may be a divergence of interest at national levels and hence likely to impede the early detection of emerging cross border systemic risks. Even in the midst of a financial crisis, in defending national interests, central banks may not be willing to disclose information on the vulnerabilities of financial institutions they supervise. In other words, it cannot be denied that the existence of asymmetric information in different jurisdictions often leads to untimely and uncoordinated responses in designing a crisis resolution strategy.

Central bankers have been continuously cooperating and collaborating among themselves and with the society at large since their establishment on concerns about stability and efficiency of the domestic as well as the international monetary and financial system (Borio & Toniolo, 2006). Central banks used to cooperate on Bretton Woods and the European Exchange Rate Mechanism for maintaining exchange rate stability and this commitment has since shifted towards the monetary union of inflation targeting and a floating exchange rate.

---

3. There is evidence of sharing by some countries. As an example, information on economies which were once closely guarded is now posted on the Special Data Dissemination Standard (SDDS) of the International Monetary Fund's website.

Undoubtedly, crises are the catalyst for various initiations of collaboration. In Asia, after the 1997 financial crisis, the Chiang Mai Initiative (CMI) was initiated in 2000 as a bilateral swap arrangement. It has developed into a multilateral currency swap arrangement amongst the ten members of the Association of Southeast Asian Nations (ASEAN) +3, namely, with the People's Republic of China (including Hong Kong), Japan, and South Korea. After the Euro Crisis, the ASEAN+3 Macroeconomic and Research Office (AMRO) was recently set up to perform key regional surveillance function under the Chiang Mai Initiative Multilateralisation (CMIM) currency swap facility (ASEAN, 2011) with access to a pool of foreign exchange reserves of more than US$ 240 billion to overcome short-term liquidity problems in the event of a crisis. Another important collaboration is the Asian Bond Fund project by the Executives' Meeting of East Asia and the Pacific Central Banks/Monetary Authorities (EMEAP) and the designing of exit policy strategies of the subprime crisis in a concerted manner among Asian countries. The introduction and the lifting of the blanket deposit guarantee simultaneously coordinated by the Hong Kong Monetary Authority, the Monetary Authority of Singapore and Bank Negara Malaysia, is a successful model of the cooperation among the regional central banks.

However, it should be noted that openness is not simply an obligation to report information to external parties but is a competitive force for building productive relationships with potential collaborators. It is also important to note that cooperation does not imply an absence of conflict and conflicts, the absence of cooperation (Keohane, 1984 quoted by de Vries 1990). In other words, "cooperation takes place only in situations in which actors perceive that their policies are actually or potentially in conflict, not where there is harmony. Cooperation should not be viewed as the absence of conflict but rather as a reaction to conflict or potential conflict" (Keohane, 1984, pp. 53-54).

At the first instance, the lack of cross border supervisory cooperation has resulted in asymmetric information on cross-border risk exposures leading to an under-appreciation by supervisors and regulators of underlying systemic risks and connections

(Kodres & Narain, 2009). In addition, it is rather obvious that the existence of asymmetric information among supervisors in different jurisdictions, leads to untimely and uncoordinated responses (Nijathaworn, 2010). Furthermore, adequate cross-country supervisory cooperation and coordination are necessary to overcome loopholes such as currency substitution, or switching from domestic lending in foreign currency to direct foreign credit.

3. Multilateral Collaboration through Regional Grouping

Increasingly, there is interest shown in the developmental salience, specificity, variability, and durability of institutions at the regional scale (Hall, 2003). This is due to increased regional connectivity, defined in the simplest form, as the accessibility of people, material and information moving from one location to another to foster regional competitiveness and development (Sokol, 2009). In this regard, the international economic order has mainly focused on three key world regions or regional groupings: Western Europe, North America, and Asia-Pacific (Murphy 1995).

The main thesis of any regional grouping is to enable members to work cooperatively through regular contacts and frequent interactions to achieve common objectives(s). In case of regional economic grouping, the commonality ground is achieved by gaining a better understanding of regional issues through formal and informal policy dialogue (Asia Regional Advisory Group, setup by the IMF in 2010), sharing regional views (SEACEN, ACBF, AMRO etc),[4] economic surveillance and to explicitly institutionalise regional financial cooperation (AMRO)[5], extracting the benefit of trade integration, reducing negotiating costs and increasing bargaining power (ASEAN), enhancing regional economic, social and technical cooperation (ASEAN,

---

4. ACBF (ASEAN Central Bank Forum) and AMRO (The Association of South East Asian Nations (ASEAN) Plus Three (APT) Macroeconomic Research Office).
5. As part of the US$ 240 billion Chiang Mai Initiative Multilateralization (CMIM) currency swap facility.

SAARC),[6] championing open trade and investment, promoting and accelerating regional economic integration, encouraging economic and technical cooperation (APEC[7], ASEAN, SAARC), meeting financial development needs (ADB) [8] and research and capacity building for stakeholders (ADBI, SEACEN)[9]. The sub-group, AMRO as part of ASEAN plus three (APT), was formed in 2011.

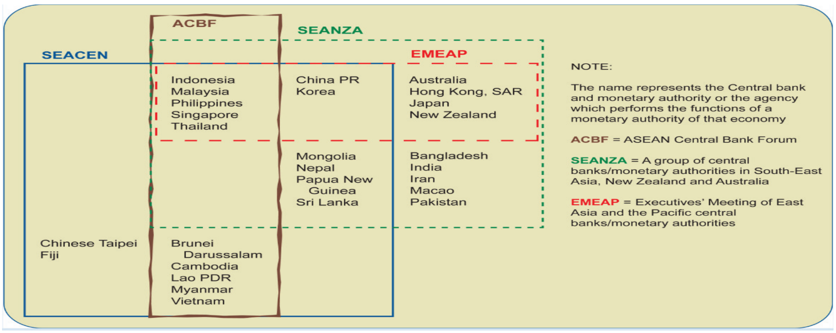
4. Central Bank Grouping

In the Asia-Pacific region, there has been a long history of consultation and cooperation among the central banks, monetary authorities and government agencies performing the functions of a monetary authority. Besides the SEACEN grouping, there are also the ACBF, SEANZA and EMEAP[10]. Overlapping memberships of the SEACEN, ACBF, SEANZA and EMEAP are shown in Chart 1. SEANZA, SEACEN, EMEAP and ACBF were established in 1957, 1982, 1997 and 1996 respectively. SEANZA, being the largest of the

6. ASEAN (The Association of South East Asian Nations) and SAARC (South Asian Association for Regional Cooperation).
7. APEC (Asia-Pacific Economic Cooperation).
8. ADB (Asian Development Bank).
9. ADBI (Asian Development Bank Institute) and SEACEN (South East Asian Central Banks Research and Training Centre).
10. ACBF (ASEAN Central Bank Forum), South East Asia, New Zealand and Australia (SEANZA) and EMEAP (Executives' Meeting of East Asia and the Pacific Central Banks/Monetary Authorities).

group currently comprises of 20 members, while SEACEN, EMEAP and ACBF consist of 18, 11 and 10 members respectively.

Chart 1: Regional Central Bank Grouping



Source: Lim & Ong (2011)

As mentioned above, all the four regional groups aim to facilitate the exchange of views among their members on issues related to economic and financial matters particularly on monetary and financial stability.[11] They also aim to stimulate and facilitate cooperation among members in the area of research and training through networking and collaboration platforms for capacity building in central banking knowledge. Members also share experiences and forward looking strategies through regular high-level meetings and fora.[12] Interestingly, a broader objective of ACBF and SEACEN is to foster regional views. In particular, ACBF aims to establish a common ASEAN position in its relation with other regional and international institutions. In addition, there is also cross-collaboration between these regional groups. For example, SEACEN is working closely with CEMLA (Center for Latin

---

11. Within these organisations, there are also working groups set up to achieve a specific purpose. For example, in EMEAP, these are on Payment and Settlement Systems, Financial Markets, Banking Supervision and Information Technology Directors' Meeting.
12. For example, in EMEAP, these are on Payment and Settlement Systems, Financial Markets, Banking Supervision and Information Technology Directors' Meeting.

American Monetary Studies) in organising the annual high-level seminars. SEACEN is also co-chairing with the ADB Steering Committee on capacity building in the financial sector to narrow development gaps among ASEAN economies.

5. Main Areas of Central Bank Cooperation in Asia[13]

Recognising the growing prominence of cross-border collaboration in an integrated world, it is clearly seen that there is cooperation among Asian monetary authorities in the areas of financial stability (surveillance and strengthening crisis management regime), capacity building and research. These are the matrix of collaboration and their economic values are illustrated in Appendix A.

5.1 Surveillance and Strengthening Crisis Management Regime: Chiang Mai Initiative (CMI) and Chiang Mai Initiative Multilateralization (CMIM)

Set-up as a regional financing arrangement, the Chang Mai Initiative (CMI) which was adopted at the ASEAN +3 Finance Minister's meeting in May 2000 established an explicit network of Bilateral Swap Agreements (BSAs) under which, in times of financial crisis, member central banks provide liquidity to their counterparts up to a certain agreed upon amount. By 2005, members of the CMI agreed to double the amount of their BSA funding support. In 2006, the effectiveness of the financing framework was enhanced by introducing a collective decision-making process, in which financing countries are called on within two days after the outbreak of a crisis and the required full support will materialise within a week.[14] By 24 March 2010, the CMI

---

13. This section is based on various SEACEN publications, namely, Lim and Pontines (2012), Siregar and et al. (2011), Siregar, Lim and Pontines (2011) and Siregar and Lim (2011).

14. In April 2007, the Monetary and Financial Stability Committee of ASEAN was launched comprising of deputy governors of member central banks. This committee handles regional monetary and financial monitoring, and also performs activities such as risk and crisis management and resolution. In November 2007, its members agreed to build a regional crisis management and resolution network.

bilateral swap network was enhanced to be a multilateral currency swap arrangement (CMIM) among ASEAN+3 members. The core objectives are (i) to address balance of payment and short-term liquidity difficulties in the region, and (ii) to supplement the existing international financial arrangements. The total fund available was US$120 billion and which doubled to US$ 240 billion in May 2012. Under the CMIM of ASEAN +3, the ASEAN Macroeconomic Research Office (AMRO) was created in April 2011. The primary functions of AMRO are to monitor and analyse regional economies in order to ensure early detection of risks, swift implementation of remedial actions and effective decision-making of the CMIM.

5.2 Development of Regional Bond Market

Another milestone in regional cooperation is the creation of the Asian Bond Fund (ABF) by the Executives' Meeting of East Asia Pacific (EMEAP) central banks. The ABF is aimed at lessening dependence on funding from outside the region and cultivation of funding within the region.[15] The ASEAN +3 is also seeking ways to spur issuance of bonds within the region through the Asian Bond Market Initiatives (ABMI) by building a common structure in the form of a credit guarantee, credit rating and settlement systems. Both initiatives were designed to achieve an efficient recycling of savings in the Asian region into Asian investments with the development of bond markets denominated in local currencies (Capanelli, 2011). These two initiatives were motivated by the Asian financial crisis of 1997-98 as most observers note that had there been a well-developed domestic bond market in place at the onset of the Asian financial crisis, the crisis would not have been as severe as it turned out. Since it was the excessive borrowing that created the so called double-mismatch problem, i.e., long-term domestic investment projects that were being funded through short-term and foreign currency borrowing, this could have easily been avoided had there been a developed bond market.

---

15. According to data compiled under the Asian Bonds Online, bond markets in East Asia have made impressive gains over the years. Total bonds outstanding reach US$5.9 trillion as of end-June 2012 compared to US$ 79 billion on March 1995.

The bigger picture, however, is that these initiatives are intended to address the uneven development of local currency bond markets in East Asia as larger economies in the region tend to have bigger and better developed bond markets.

5.3 Cross-Border Supervision

It is now a well-known fact that globalised banks play a crucial role in the international transmission of monetary policies and economic shocks globally. For example, foreign banks' operations in emerging markets across the global banking system, including those of the Asian economies, increased dramatically starting the second half of the 1990s. In addition, a recent survey carried out by The SEACEN Centre has identified a number of regional and global banks that have strong presence in major Asian economies (Siregar & Lim, 2010). The Hong Kong Shanghai Banking Corporation (HSBC), Citibank and the Standard Chartered Bank are among the three major international banks that have wide and extensive branch networks in the Asian region. In addition to these three international powerhouses, the region has also witnessed the emergence of its own multinational banks. In Malaysia, banks such as the Malayan Banking Berhad (Maybank), Commerce International Merchant Bankers Berhad (CIMB) and Rashid Hussain Berhad (RHB) have expanded their networks into Southeast Asian and beyond. A number of Singaporean banks, namely the Development Bank of Singapore (DBS), the United Overseas Bank (UOB), and the Overseas Chinese Bank Corporation (OCBC) have achieved similar success in their efforts to become regional banks.

A number of major central banks in Asia have been invited to participate in colleges of supervisors. The college of supervisors (COS) is defined as a "permanent, although flexible structure for cooperation and coordination among the authorities of different jurisdictions responsible for and involved in the supervision of the different components of cross-border banking groups, specifically large group" (The Committee of European Banking Supervisors CEBS, 2010)[16]. Bank Negara Malaysia, the central bank of Malaysia for instance, is involved in the COS organised by the Financial Stability Agency of United Kingdom for the Standard Chartered Group, the BaFIN (Federal Financial Supervisory Authority, Germany) for the Deustche Bank Group and the OSFI (The Office of the Superintendent of Financial Institutions, Canada) for the Bank of Nova Scotia Group. Similarly, the Monetary Authority of Singapore (MAS) and Bangko Sentral ng Pilipinas (BSP) have also participated in a number of COS set up for major European and the US banks. In addition, under the foreign banking law of the State Bank of Vietnam, one of the conditions for a foreign bank to establish its subsidiary in Vietnam is that the home-supervisor of that particular foreign bank must sign a MOU with the State Bank of Vietnam. This MOU facilitates exchanges of data and information between the two bank supervisors. It must be emphasised that sharing of information can be extended to the sharing of data across various COS to examine potential systemic risks. Currently, due to confidentiality reasons, this is not possible.

5.4 Research and Training

Central banks have been collaborating in the area of capacity building amidst challenges of a constantly evolving global environment (See box article). In this region, since its inception in the early 1980's, The SEACEN Centre has established its unique regional position in serving its membership of central banks in the Asia-Pacific region through its learning programmes, research work, and networking and collaboration platforms for capacity building in central banking knowledge. Over the years, besides its members, SEACEN has built a wide network base with 16 other central banks which are invited for the Centre's learning programmes, as well as 26 regional and international strategic partners with whom the Centre collaborates in the design and delivery of its programmes in central bank core

16. As a general rule, the establishment of a supervisory college should be considered for significant financial institutions in terms of size, interconnectedness with other components of the financial system and/or the roles they play in the market which may cause systemic impact on the economy's financial system, hence affecting the region's financial stability.

knowledge areas of Macroeconomic and Monetary Policy Management; Financial Stability and Supervision; Payment and Settlement Systems and Leadership and Governance.

6. Potential Areas of Cooperation

6.1 Cooperation to Boost Interregional Demand

Resolving the global imbalances problem should not fall squarely on the shoulders of domestic policies that stimulate domestic demand, but also on initiatives that attempt to resolve the collective action problem by forming a regional consensus in the implementation of national economic policies that ultimately boost intra-regional demand. Two contrasting trends have been observed in a number of SEACEN economies in the context of the recent global financial crisis. On the one hand, the financial sectors, particularly the banking sector of SEACEN economies have shown resilience in withstanding the worst of the global financial crisis (GFC) and are emerging relatively unscathed, even while several developed countries' financial systems were decimated. In contrast to the 1997 East Asian financial crisis, the capital adequacy and liquidity positions of the banking sector of the SEACEN economies remain above the Basel requirements, while non-performing loans have remained at low levels over recent years.

Box Article: Research and Training: A Reference to The SEACEN Centre

SEACEN's vision is: "To be the Regional Learning Hub for Central Bank in the Asia-Pacific Region". As such, the role, functions and scope of SEACEN have expanded significantly in recent years. The main priorities of SEACEN is to move into greater echelons of providing thought leadership and fostering networking and collaboration while spearheading innovative learning solutions for the common purpose of building capacity in central banking in the region. SEACEN will continue to enhance its value prepositions.

SEACEN has increasingly expanded its offerings to cater to the learning needs of its stakeholders through Signature Programmes, High Level Meetings and Learning Programmes. SEACEN has also incorporated the Instructional Systems Development process model ADDIE (Analysis, Design, Development, Implementation and Evaluation) and Adult Learning Principles into the design and implementation of its learning solutions to enhance their effectiveness. Rather than relying on the traditional one-way delivery by the speakers, SEACEN has employed key adult learning principles to foster an interactive way of learning between the participants and speakers. Thus, SEACEN programmes have been transformed to be learner-centric which requires high involvement of the participants. Research activities and case studies are also increasingly linked to learning programmes to enhance effectiveness and provide a regional flavour.

In view of the increasing importance of the region, SEACEN also aims to provide conducive platforms for members to share knowledge and experience in the regional context, as well as opportunities to deliberate collectively on issues, challenges and development in central banking to derive regional views, through its unique learning solutions and collaborative learning platforms. SEACEN is also looking forward to offering technical assistance in specific core central banking areas to member banks on their requests. SEACEN can also serve as a clearing house to match demand for and supply of technical assistance among its member and invitee central banks as well as strategic partners.

On the other hand, the exports of SEACEN economies have been indiscriminately impaired by the global financial meltdown. The impact of the subprime crisis on Asian's real sectors came predominantly through trade channels. SEACEN economies are largely trade-oriented in nature. At the peak in 2009, the average ratio of total trade (export and import) to GDP in many SEACEN economies was well above 100 percent. For some SEACEN economies, the decline in exports was even more severe when compared to the 1997 Asian financial crisis. As a matter of fact, the rate of decline in global trade during the sub-prime crisis period has been very severe. The way the subprime crisis has impacted Asian economies is lending strong support to the argument that in the longer-run to mitigate risks through the trade channel, central banks can cooperate in directing their policies to support the rebalancing of growth by placing greater reliance on domestic demand and the expansion of intraregional export trade for sustained and resilient growth.

6.2 Coordinate Collective Regional Currency Adjustment

As the Asian region grows together through ever increasing intra-regional trade, investments and significantly tighter financial linkages, improving existing coordination mechanisms in the region that range from softer forms of coordination such as information sharing and surveillance to stronger forms such as formal exchange rate and monetary policy coordination are of vital importance. The close macroeconomic interdependence of the regional economies means that they are increasingly affected by shocks that emanate from neighbouring economies as well as being highly sensitive to policies adopted in these same economies.

Take for instance the issue of competitiveness vis-à-vis neighbouring economies in the region. The rapid growth of intra-regional trade in the Asian region that is centred around China has brought about three policy concerns (Roubini, 2010). One is that Asian economies-ex-China would lose their competitiveness relative to China in third markets such as the United States, Japan and other developed economies, once their currencies appreciate. Second, as China produces and exports labour-intensive manufactured goods to neighbouring Asian economies, a currency appreciation in these regional economies outside of China can trigger a 'competitive squeeze' that can hurt domestic and import-competing manufacturing industries in these same economies. And finally, a currency appreciation in one Asian economy that is not equivalently experienced to the same degree in other neighbouring Asian economies, can also harm the former's market share relative to the latter in the Chinese market. In short, there is more economic reason among Asian economies outside of China to fear or dread a currency appreciation. Recent evidence indicates that indeed such is the case.

A possible regional solution in this regard is for these economies to collectively appreciate against the U.S. dollar. This can be a logical and effective mechanism in promoting currency stability in the region without running the risk of altering the loss of price competitiveness for each economy as emphasised above. More importantly, this can facilitate the contribution of the Asian region to the global rebalancing process (Kawai, 2010). In order to ensure that such intra-regional exchange rate stability can be facilitated, it is critical that the existing dialogue process of finance ministries and central banks in the region should focus on a convergence of existing exchange rate regimes. In particular, they should work towards a regime that allows greater currency flexibility against the US dollar (Kawai, 2007).

6.3 Macroprudential Coordination

It is clear that a sound financial system is a prerequisite for the effective implementation of monetary policy. This is well illustrated by the current global financial crisis. Although price stability remains the main focus of central banks, increasingly they are also given the additional mandate of financial stability as a result of the interconnectedness of the global financial markets. This calls for central banks to rethink the current framework for monetary policy to include macro-prudential policies to fulfill these dual responsibilities. It is recognised, both on theoretical and practical grounds, that although monetary policy is an integral component of the policy framework for financial stability, it has limitations. For example, the efficacy of monetary policy is questionable in an environment where consumer prices and asset prices move in the opposite directions.

The escalating prominence of macro-financial linkages also implies that there is now a widespread recognition of the need to focus on pro-cyclicality issues, systemic risk and internal and external shocks on the overall economy. Clearly, the consequence of implementing macro-prudential policies will have a direct bearing on the conduct of the monetary policies and vice-versa. Thus, both sets of policies need to be manifested into a coherent and effective approach which can mutually reinforce and support each other to achieve both price and financial stability. Therefore, monetary and macro-prudential policies may be most successfully implemented in the presence of an overall policy framework that fosters complementary management of monetary policies with macro-prudential policies. There is, thus, a need to critically examine potential synergies, trade-off and conflicts between them.

Apart from mutual consistency in implementing both monetary and macro-prudential policies domestically, there may also be need for policy coordination in the international dimension. It may be, therefore, necessary to examine the possibility of cross-border collaboration in designing and implementing both sets of policies consistently. A recent good example is the blanket guarantee coordination. In July 2009, the Hong Kong Monetary Authority, Bank Negara Malaysia and the Monetary Authority of Singapore announced the establishment of a tripartite working group to map out a coordinated strategy for the scheduled exit from the full deposit guarantee of the banking system by the end of 2010 in their respective jurisdictions.

A current rising concern is rule arbitraging. For example, if one economy were to go it alone with tough and comprehensive measures on capital inflows, it is likely that we would see capital flows fleeing from that economy to another with softer policy stances. Macro-prudential measures will undoubtedly have macroeconomic spill-overs. Therefore, authorities in different jurisdictions must, ever more so, strive to ensure that monetary policies and macro-prudential regulations, including supervisory ones, work in a coherent manner.

6.4 Green Policies

In emerging economies such as those of the SEACEN region, central banks are responsible for establishing an environment that is conducive to the maintenance of price and financial stability, taking into account sustainable economic growth (Lim, 2010). Sustainable development is now commonly defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Goossens et al., 2007). In the present decade, sustainable economic growth has taken on a new definition. It may now be absolutely necessary to go beyond the conventional measurement of GDP. Economic development in the new era needs to take greater consideration of environmental costs and benefits: the concept of the "green" GDP.

In the near future, the central bank can arguably play a very important role by being a leader rather than a laggard in climatic change policies. In the effort to mainstream climate change policies of a central bank, the 'green' concept can be integrated and incorporated in all aspects of a central bank's policies (Lim, 2010). As climatic change policies do not work in isolation, moving forward, green policies will be an important area of collaboration amongst central banks in the future.

6.5 Other Potential Areas of Collaboration

Another important collaboration area is on cross-border collateral arrangements (CBCAs) to provide local currency liquidity by accepting foreign currency assets (Nishimura, 2012). This will facilitate a smoother crisis management and cross-border payment system. There is also a need to improve market infrastructures - an area for which further regional cooperation initiatives can help significantly. Finally, the creation of a regional credit rating agency in the near future can serve as a catalyst in helping to bring about harmonisation and comparability in the rating process of local and domestic companies in the Asian region (ADB, 2010).

7. Future Directions and Challenges

Learning organisations such as central banks must continue to innovate to create prosperity and advance society. Hence, central bankers must continue to build a network to quicken the process of collaboration for shared thinking. Moving forward, how far and how could central banks in the Asian region collaborate more effectively? Certainly, the so-called voluntary collaboration may need to be formalised and move to the next level as the concern is that during good times, these collaboration efforts are voluntary at best (Lim and Ong, 2012). One can take a step even further to legalise information sharing arrangements. For example, it has been postulated that the lack of an international legal regime capable of conducting prudential supervision of cross-border financial institutions is the reason for the sub-prime crisis. With no legal binding, national supervisors in defending national interests during a crisis, may not be willing to disclose information on vulnerabilities of financial institutions they supervise (de Larosière Group, 2009). For instance, for COS to be effective, it may eventually require enforcement of decisions in an environment of harmonised laws and regulations for legally binding enforcement in various jurisdictions.

In the long run, the region may eventually need an independent supranational institution with full regulatory and supervisory oversight, working together with national supervisors to ensure prompt corrective actions and also to implement appropriate preventive crisis management policies. Ingves (2007) also calls for the creation of a common regional/ international body with a clear mandate to enable supervisors to effectively monitor and supervise cross-border banking groups. In addition, it is argued that the adoption of fully harmonised rules for a consistent supervisory framework will ensure efficiency in the decision making process (EFS, 2009). However, others such as Trichet (2007), believe supervisors in different jurisdictions would have difficulties adjusting to a common framework given the various stages of development of supervisory techniques. This is well illustrated by the experience of the EU where it is rather difficult to transpose homogenous principles into national regulations (Hardy & Nieto, 2008). For a start, formal collaboration with multilateral and regional organisations could lead to what is called "Regional Views", through prescribed platforms to represent members in regional and international fora[17].

Regardless of the legal mandate, building trust among supervisors over time in different economies is very crucial (Holthausen & Ronde, 2005). In addition, effective collaboration may require a strong lead. This is where multilateral organisations can play a major role, not only to lead but as change agents to communicate and at the same time, create an open and receptive environment.

8. Future Roles of Multilateral Organisations

In theory, regional groups could join forces in all areas of concern resulting in partnership efficiency and inter-disciplinary collaboration. In other words, these regional groups can co-exist in a competitive environment. In practice, however, with different groups serving similar members within the same geographical location, this begs the question of whether there is one group too many. One could, of course, analyse this scenario in the context of dynamism among the various groups with similar interest in a network-centric environment. For example, how do these groups interact with and to one another? As noted earlier, one of the most common objectives of a regional grouping is to form regional views and signal the intention of those views. When dealing with similar issues, groups with a similar stance can reinforce each

17. Such is the purpose of The SEACEN Centre.

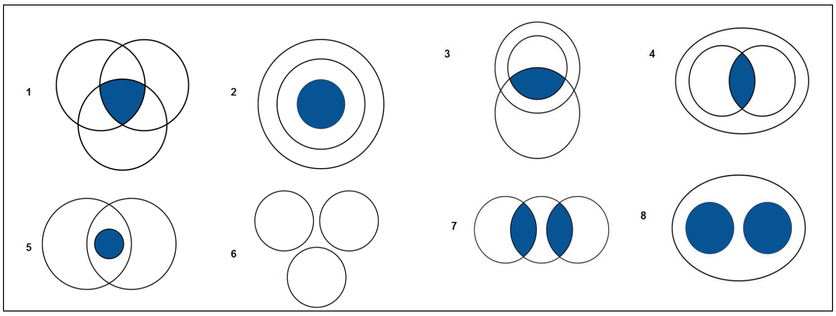
other. But if there is very little communication and coordination among the various groups (as currently is the case), there is the possibility of inconsistent (conflicting notwithstanding) regional economic views. This could result in the lack of clarity, dilution of their effectiveness and hence bargaining power. In a similar fashion, the lack of cohesiveness among the groups also implies that there is the possibility of one group becoming more influential and dominant than the others, again, causing distortion and asymmetry in regional views. In technical areas such as economic surveillance, where respective groups can do what they can do best, their individual efforts and capacities may not be efficiently synergised as in practice, confidentiality prevents the sharing of sensitive information. In terms of capacity building offerings, there is a high probability of duplication of courses offered.

On a broader scale, the lack of cooperation also implies that there is the risk of "polarisation" with various groups trying to establish and distinguish themselves by acquiring identities that enhance differences from other groups by being "niched". Eventually, the "niche" demarcation of interest limits the opportunity and the capacity for alignment among the various groups.

Should different groups merge? The current sentiment is that it would be difficult for regional groups to work towards a unified institutional arrangement. Instead, there is a stronger possibility of strengthening the existing arrangements while developing stronger cooperative links between them (Niekerk). In this region, there is currently no initiative nor discussion on the possibility of merging different economic groups, even those with similar interest. Notwithstanding the advantage of cross-collaboration, we feel that it is time to rethink regional grouping arrangements. Merging groups can be instituted with similar *defacto* interest and coverage. For example, there are groups set up to mainly institute policy dialogues or capacity building. This is an obvious choice as groups with similar interest can create self-reinforcing dynamics which may eventually cumulate into group synergy (Most likely candidates will be 1-5 as in Chart 2).

Merging in Scenario (1) is straightforward. The economics of scale would help to increase output and reduce average cost.

Chart 2: Overlapping Interest



* Circles represent groups with distinct or overlapping interest (not drawn to scale)
Source: Lim & Ong (2012)

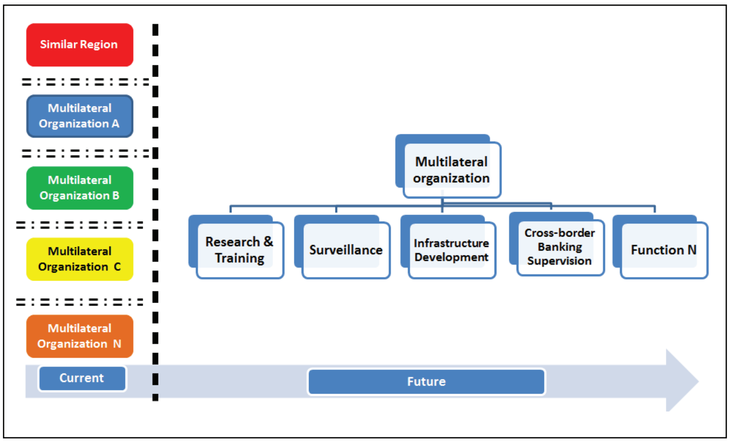
A more challenging scenario is merging groups with different interest and coverage[18]. In the first best solution, there should only be one supranational authority (the umbrella position concept (UPC)) representing its members (in this case, central banks) and cooperating on all fronts with groups of other regions. Merging different groups under an umbrella organisation has several advantages (Anderson, 2012).[19] Apart from the ability to leverage on a larger funding stream, the emerging group would imply the avoidance of duplication, with

18. Membership from the emerging group in both scenarios above is likely to be equal or more than the membership of the individual groups. Larger membership may benefit groups whose main task is to perform economic surveillance and policy dialogue as spill-over effect is relevant. Larger membership, especially among microstates, may also contribute to generating the socially optimal group size (Andriamananjara, 1998).

19. An argument against the umbrella concept is that the decision making bodies may become impossibly large. However, this can easily be counteracted by instituting a governing board comprising of selected members, preferably on a rotational basis based on predefined criteria.

increased efficiency and blended staff. In addition, the emerging group may be able to institute a broader strategy to better service its members. In the longer run, a more recognised brand image can be conceived; with a single institution with greater clout (main candidates will likely be 6-8). In a regional grouping, under the UPC, sub-groups can be formed based on a specific intent to articulate that interest (see Chart 3).

Chart 3: Transforming Multilateral Organisations: Integrated Approach without Boundaries



This enables each sub-group to target a specific purpose but ladders back (two-way communication) to the umbrella concept's main message of regional unity of one main 'voice'. The umbrella concept also serves as a very useful mechanism to cater for time inconsistency. In the longer run, interest of members united under a common purpose may change drastically to warrant rationalisation. This will defeat the original intent of the group, unless there is an exit strategy. However, under the umbrella concept, the original subgroup can be disbanded and regrouped accordingly within the same umbrella, without inflicting damage to regional collaboration and cooperation.

9. Concluding Remarks

Past and recent crisis have again demonstrated that policy cooperation across different jurisdictions are critical to enhance the effectiveness of various monetary, exchange rate and prudential measures in mitigating the impacts of the crisis and more importantly, position the economy for a stable economic recovery stage. In this respect, central banks need to firmly establish areas and perhaps, also institute timelines, be it voluntarily or under some sort of established rules. As for the various regional banking groups, a proposal is to unite them within the umbrella concept where it could cater for changing interest. In any case, in the possible convergence of various regional groups, one has to consider the degree of formality, hierarchy, legalisation and institutionalisation (Haftel & Thompson, 2006). This is no easy task but not one that cannot be tackled with rational initiatives and ingenuities.

Appendix A

Matrix Representation of Collaboration in Asian Economies

Levels of Coopetition	Areas of Cooperation	Current Development	Knowledge Value	Economic Value
Loose	Information sharing: • Capital flow • Supervisory concerns • Colleges of supervisors	In Existence	Communication and Information Flows Inter-regional knowledge	Macroeconomic Stability • Policy Coordination Financial Stability • Minimise systemic risks • Reduced aggressive and Suboptimal Rent-Seeking policies
	Forums	In Existence	Regional Views Communication and Information Flows Inter-regional knowledge	Consistency and clarity of regional views Increase bargaining power
	Research and Training	In Existence	Human Resource capacity Knowledge Creation and Transfer	Thought leadership Build Networking
Firm	Macroprudential policies Coordinate Collective Regional Currency Adjustment	Potential	Co-design Co-development Co-design Co-development	Macroeconomic Stability and Financial Stability • Increase Potential Policy Coordination • Reduced aggressive and Suboptimal Rent-Seeking policies • Quicker Agreement on Standards Macroeconomic Stability and Financial Stability • Boosting regional trade

Levels of Coopetition	Areas of Cooperation	Current Development	Knowledge Value	Economic Value
	Surveillance	In Existence	Communication and Information Flows Inter-regional knowledge	Macroeconomic and Financial Stability ⊠ Minimise systemic risks ⊠ Increase Potential Policy Coordination ⊠ Reduced aggressive and Suboptimal Rent-Seeking policies
	Infrastructure Development: e.g., bond markets	In Existence	Co-design Co-development	Macroeconomic and Financial stability
	Cross-border collateral arrangements	Limited	Local currency liquidity by accepting foreign currency assets	Financial and Payment system Stability
	Green policies	Potential	Co-design Co-development	Sustainable Growth
Legalised	Strengthening crisis: Crisis Management regime Financial Safety Nets	In existence	Heightened productivity through commitment	Macroeconomic and Financial Stability ⊠ Certainty in policy responses ⊠ Increase credibility and transparency of policies

References

Anderson, L., (2012), "Merging Two Economic Development Groups: How York, Pa., Got It Done," *Economic Development Now*, Vol. 12, No.6, March 19.

Andriamananjara, S., (1998), "Regional Groupings Among Microstates," *Working Paper Series*, The World Bank, March.

ASEAN Website, (2011), http://www.asean.org/25193.html.

Asian Development Bank, (2010), Institutions for Regional Integration: Toward an Asian Economic Community, Manila, Philippines.

Borio, C. and Toniolo G., (2006), "One Hundred and Thirty Years of Central Bank Cooperation: A BIS Perspective," *BIS Working Papers*, No 197, February , http://www.bis.org/publ/work197.pdf.

Brandenburger, A.M. and Stuart, S., (1996), "Value-based Business Strategy," *Journal of Economics & Management Strategy,* No. 5.

Capanelli, G., (2011), "Institutions for Economic and Financial Integration in Asia: Trends and Prospects", ADBI Working Paper Series No. 308, Tokyo, Japan.

Committee of European Bank Supervisors (CEBS), (2010), Colleges of Supervisors – 10 Common Principles, January 2009, http://www.c-ebs.org/getdoc/aeecaf1a-81b5-476a- 95dd-599c5e967697/Clean-V3-formatted-CEBS-2008-124-CEIOPS-SEC-08-54-.aspx-2008-124-CEIOPS-SEC-08-54-.aspx.

de Larosière Group, (2009) , the de Larosière Report on the High Level Group of Financial Supervision in the EU, Brussels, 25 February.

de Vries, M.S., (1990), "Interdependence, Cooperation and Conflict: An Empirical Analysis," *Journal of Peace Research*, Vol. 27, No. 4.

European Financial Service Round-table, (EFS, 2009), Top 10 EFR Messages on Consolidated Supervisions and the College of Supervisors, 10 September,http://www.efr.be/members/upload/news/81062EFR%20sept09158.pdf.

Goossens Y.; Mäkipää A.; Schepelmann P.; van de Sand. I., Kuhndt and M.,Herrndorf M., (2007), Alternative Progress Indicators to Gross Domestic Product (GDP) as a Means Towards Sustainable Development, Policy Department Economic and Scientific Policy European Parliament, October.

Haftel, Y.Z. and Alexander Thompson, (2006), "The Independence of International Organization: Concept and Applications," *Journal of Conflict Resolution*, Vol. 50, No.2, April.

Hall, P.V., (2003), "Regional Institutional Convergence?," Reflections from the Baltimore Waterfront, Department of Geography, University Economic Geography, Vol. 79, No.4.

Hardy, D.C. and Nieto, M.J., (2008), "Cross-border Coordination of Prudential Supervision and Deposit Guarantees," *IMF Working Paper*, IMF, WP 08/283.

Holthausen, C. and Ronde, T., (2005), Cooperation in International Banking Supervision, Center for Economic Policy Research Discussion Paper Series No. 4990,http://www.ecb.int/pub/pdf/scpwps/ecbwp316.pdf.

Ingves, S., (2007), "Regulatory Challenges of Cross-border Banking: Possible Ways Forward", Paper Presented at Reserve Bank of Australia, Sydney, Australia , 23/July, http://www.riksbank.se/templates/Page.aspx?id=25321

Kawai, M., (2007), "Evolving Economic Architecture in East Asia," *ADBI Discussion Paper* No. 84.

Kawai, M., (2010), "Global Rebalancing: An Asian Perspective, " In S. Collignon, R. Cooper, M. Kawai and Y. Zhang (eds.), Rebalancing the Global Economy: Four Perspectives on the Future of the International Monetary System, Berlin: Bertelsmann Stiftung.

Kodres, L. and Narain, A., (2009), "What is to be Done", *Finance and Development*, IMF, No. 1, Vol.46, March.

Keohane, Robert, (1984), After Hegemony: Cooperation and Discord in the World Political Economy, Princeton University Press.

Lim C.S.,V., (2010), "Greener Central Banks: Exploring Possibilities," *Staff Paper* No.76, SEACEN, August.

Lim C.S.,V. and Ong L.C.V., (2011), "Banking on Togetherness ," *Economic Letter*, The SEACEN Centre, No.1, October.

Lim C.S.,V. and Ong L.C.V., (2012), "Banking on Togetherness (ii): Regional Singular," *Economic Letter*, The SEACEN Centre, No.2, June.

Lim C.S, V. and Pontines, V., (2012), "Global Imbalances: A Primer," *Staff Paper*, No.86,The SEACEN Centre.

Mendhurst, (2011), Central Banking, http://www.mendhurst.com/central-banking.html.

Murphy, A.B., (1995), "Economic Regionalization and Pacific Asia," *The Geographical Review*, Volume, Vol. 85, No.2, April.

Niekerk LK., Regional Integration: Concepts, Advantages, Disadvantages and Lessons of Experience, http://siteresources.worldbank.org/EXTAFRREGINICOO/Resources/Kritzinger.pdf.

Nijathaworn, B., (2010), "Regional Financial Supervision – Challenges and the Way Forward for Asia," Remarks at the Conference on Macroeconomic and Financial Stability in Asian Emerging Markets, Organised by the Bank Negara Malaysia and Asian Development Bank Institute, Kuala Lumpur, 4 August.

Nishimura GK., (2012), "Central Bank Cooperation at the Beginning of the 21st Century", Remarks at CEMLA´s 60th Anniversary Commemorative Conference Mexico City, July 19.

Roubini N., (2010), Roubini Global Economics, Various Issues, http://www.roubini.com.

Siregar R.Y. and Lim C.S.,V., (2010), "The Role of Central Banks in Sustaining Economic Recovery and in Achieving Financial Stability," *Journal of Advanced Studies in Finance*, Vol.1, No.1.

Siregar R.Y. and Lim C.S.,V., (2011) "Living with Macro-financial Linkages: Policy Perspectives and Challenges for SEACEN Countries," Staff Paper No. 79, The SEACEN Centre

Siregar R.Y.; Lim C.S.,V.; Jaffar J. and Hussain N.,(2011)," Capital Flows Management During the Post-2007 Global Financial Crisis: The Experiences of SEACEN Economies," *Staff Paper* No. 80, The SEACEN Centre.

Siregar R.Y.; Lim C.S.,V. and Pontines V., (2011), "Post Global Financial Crisis: Issues and Challenges for Central Banks of Emerging Markets," Staff Paper No. 85, The SEACEN Centre.

Sokol, M., (2009), "Regional Connectivity," In Kitchin, R. and Thrift, N., (Eds.), *International Encyclopedia of Human Geography*, Volume 9, pp. 165-180, Oxford: Elsevier.

Tapscott, Don and Williams, Anthony D., (2011), Macrowikinomics: Rebooting Business and the World, Portfolio Penguin.

Trichet, J.C., (2007), Towards the Review of the Lamfalussy Approach: Market Developments, Supervisory Challenges and Institutional Arrangements, Keynote Speech at the First CEBS Conference, London, 9 May.