Regional Surveillance Mechanisms in Asia: An Overview of the Participation of the Bangko Sentral ng Pilipinas

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Introduction

The recent spate of crises such as the 2008-2010 Global Financial Crisis which started in the United States, and the sovereign debt crisis in Europe have underscored the importance of global and regional surveillance mechanisms.

In the aftermath of these crises that hit the modern global economy, concerns were raised about the failure of surveillance mechanisms to foresee the build-up of risks and its costly unwinding. This is clearly expressed by the International Monetary Fund (IMF) itself in its 2011 evaluation report:

“......the IMF fell short in delivering on this key (surveillance) objective in the run-up to the financial and economic crisis that began to manifest in mid-2007 and that reached systemic proportions in September 2008. During the period 2004–2007, the banner message of IMF surveillance was characterized by overconfidence in the soundness and resiliency of large financial institutions, and endorsement of financial practices in the main financial centers. The risks associated with housing booms and financial innovations were downplayed, as was the need for stronger regulation to address these risks” (IMF, 2011).

The failure to capture the gravity and extent of emerging vulnerabilities in the US and Europe brought to the fore the critical role and the need to strengthen surveillance mechanisms. Essentially, surveillance serves as a warning tool in identifying emerging risks and addressing potential problems. Surveillance may also serve as a basis in forming peer review systems, which allows for policy dialogue and exchange that provide scope for coordinated policy response and management of potential spillovers. A strong surveillance process is an essential tool in preventing and minimizing risks of future crises by providing early warning signs so that countries can take prompt corrective actions. In the Asian region, the importance of surveillance has been realized in the aftermath of the 1997 Asian financial crisis, such that concrete steps to institutionalize regional surveillance have been undertaken and gained substantial progress in recent years. Likewise, cooperation in surveillance in Asia also served as an impetus for regional finance cooperation and integration activities.

This article aims to discuss the participation of the Bangko Sentral ng Pilipinas (BSP) in regional surveillance mechanisms, beginning with the multilateral surveillance conducted by the IMF, formally known as the Article IV Consultations. This is followed by the ASEAN Surveillance Process (ASP) under the ASEAN Finance Ministers’ process, and the Economic Review and Policy Dialogue (ERPD) Process under the ASEAN+3 Finance Ministers’ process, which are policy dialogue-based and peer review structured forms of surveillance. The article will also discuss the BSP’s participation in the recently established ASEAN+3 Macroeconomic Research Office (AMRO), which is an evolving regional surveillance mechanism of the Chiang Mai Initiative Multilateralization (CMIM). The article will also briefly discuss the BSP’s participation in selected policy exchange and information sharing activities under key central bank regional forums such as the Executives’ Meeting of East Asia Pacific (EMEAP) Central Banks and the Bank for International Settlements (BIS).

Taking off from these discussions, the article will analyze the benefits of participation in these mechanisms, against the backdrop of increasing regional economic interdependence.

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1 IMF Performance in the Run-up to the Financial and Economic Crisis from 2004-2007 prepared by the IMF’s Independent Evaluation Office (IEO)
2 ASEAN member countries include Brunei, Cambodia, Indonesia, Lao People’s Democratic Republic (PDR), Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.
3 ASEAN+3 is comprised of the ASEAN member countries plus the People’s Republic of China (PRC), Japan and the Republic of Korea.
and integration, as well as a fast evolving global economic environment. Finally, the article concludes with a discussion of the future directions in regional surveillance mechanisms.

**Definition of Surveillance**

In the sense of its current usage, the word “surveillance” appeared for the first time in the internal documents of the IMF in the early 1970s. Surveillance became part of the vocabulary of international economics when it was mentioned in the Second Amendment of the IMF Articles of Agreement, which came into force in 1978. Article IV of the amended Articles of Agreement provides that the IMF “oversee the international monetary system in order to ensure its effective operation and — oversee the compliance of each member with its obligations specified therein (Section 3[a]) as well as to — exercise firm surveillance over the exchange rate policies of its members.” In accordance with The IMF Surveillance Decision of 1977, the surveillance of exchange rate policies covers all macroeconomic and macro-critical structural policies that may influence a member country’s exchange rate, balance of payments or external stability.

In IMF usage, there are two categories of surveillance activities namely: (a) bilateral surveillance, or the evaluation of and advice given on the policies of individual member countries typically conducted under the periodic Article IV consultations; and (b) multilateral and regional surveillance which covers the oversight of the world economy and regional economic developments. Multilateral and regional surveillance complements bilateral surveillance by bringing into the analysis global and cross-country perspectives. Within the IMF, multilateral and regional surveillance are most visibly conducted under the semi-annual World Economic Outlook (WEO), Regional Economic Outlook (REO), and Global Financial Stability Report (GFSR) exercises. On the other hand, bilateral surveillance is carried out under the Article IV Consultations in which a Staff Report is published for the discussion of the IMF Executive Board.

Furthermore, Takagi (2010) argues that surveillance may be viewed in terms of a results chain consisting of three stages. The first stage involves producing a message, such as an assessment of a country’s crisis vulnerability or the need to make a policy adjustment. The second stage involves the surveillance unit delivering the message to its audience by employing one or more of three available avenues namely: (i) peer pressure through the officials of other countries, (ii) public pressure through the markets or the general public, and (iii) quiet persuasion as confidential advisor to the government. Lastly, the third stage involves having an impact on policymaking in the country concerned, if the right message is delivered to its authorities in an appropriate manner.

**Benefits of Regional Surveillance Mechanisms**

The emergence of regional surveillance activities extends a number of positive benefits to participating member countries and addresses limitations on multilateral surveillance of the IMF. At the same time, regional surveillance activities pose positive externalities to other countries outside the region, in terms of contributing to regional stability and early detection of emerging risks and spillovers. Some of the benefits identified by Takagi (2010) include the following:

- **Regional surveillance adds another dimension of support to increasing regional economic integration.** Given deepening economic integration, there is an increasing need for the East Asian region to have a cooperative mechanism to identify vulnerabilities and help prevent crises from occurring. The region also needs a more effective cooperative framework of regional policy dialogue and cooperation to address potential policy spillovers, mitigate political tensions and find scope for collective action. Such cooperative schemes can be built through regional surveillance.

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4 Discussions in this section are largely based on the review of literature of the paper “Regional Surveillance for East Asia: How Can It Be Designed to Complement Global Surveillance?”. Shinji Takagi. ADB Working Paper on Regional Economic Integration. May 2010.
Regional surveillance mechanisms help fill existing gaps from IMF surveillance. Albeit the IMF is also doing regional surveillance, its main focus remains on global and national perspectives. In this context, a regional surveillance mechanism can provide additional value through its evaluation mechanism by focusing on regional vulnerabilities and intra-regional linkages, as well as from shifting from the IMF’s “top-down” approach to a “bottom-up” approach to regional surveillance (AEM, 2009). This renewed approach would ensure that recommended policy adjustments would run not just from “top-down”, i.e., from global analysis to regional, then to national policymakers, but also from “bottom-up” i.e., by drawing from national to regional monitoring then to global surveillance and dialogue processes. This practice would help ensure regional policy ownership of member countries.

Regional surveillance helps complement IMF’s crisis prevention mechanism. A regional mechanism set-up is distinct from the organizational structure of IMF surveillance, in which its Board of Executive Directors is the primary audience. The IMF Executive Board, where surveillance discussions take place, also does not possess direct political clout to serve as an effective peer pressure group (AEM, 2009). Although recently, the IMF has tried to project its influence by participating in global forums of senior policymakers, such as the G-7 and G-20 processes, its involvement has largely been limited to providing technical inputs (Takagi, 2010). Thus, regional surveillance mechanisms provide a potentially complementary “peer pressure” effect towards its members given that its surveillance reports are directly fed into the ministerial level policymakers themselves, thereby resulting to a more effective crisis prevention policy action.

Surveillance at the national, regional, and global levels contributes to effective economic governance. An increasingly globalized world demands that surveillance be conducted at three distinct levels namely: national, regional, and global. Global surveillance and dialogue forums can identify issues pertaining to systemic risks, while regional surveillance and dialogue can forge coordinated policies to address risks to contagion. On the other hand, national surveillance identifies specific vulnerabilities to individual economies. Overall, these three tiers may become an effective filtering mechanism for identifying emerging policy issues. Moreover, should an emerging vulnerability get past through one filter, there is a good chance it will be spotted and addressed at one of the remaining two surveillance levels (AEM, 2009).

BSP Participation in Regional Surveillance Activities

One of the key activities under the BSP’s thrust of proactive participation in regional monetary and financial cooperation activities is its participation in various forms of surveillance activities. By geographical and topical area of coverage, the BSP participates in multilateral surveillance (as a member of the IMF) and regional surveillance (under the ASEAN and ASEAN+3 finance processes, as well as the newly established AMRO) activities. On the other hand, according to the type of activities undertaken, the surveillance activities participated in by the BSP may be classified into: (a) data and information sharing; (b) policy dialogue and peer review; and (c) due diligence type of review and assessment of economic conditions, policies, and risks with an end view of prescribing remedial policy actions to authorities. The following sections proceed to describe the BSP’s participation in each of these surveillance activities.

Multilateral Surveillance

BSP Participation in the IMF Article IV Consultations

Under the Article IV consultation visits, an IMF mission conducts periodic visits, usually at an annual basis to member countries, to exchange views with the government and the central bank on whether there are risks to domestic and global stability that argue for adjustments in a members’ economic or financial policies. Discussions mainly focus on exchange rate, monetary, fiscal, and financial policies. During their missions, IMF staff also meets with
other stakeholders, such as members of Congress, representatives of business, labor unions, and civil society to seek further perspectives as it evaluates the country’s current and prospective economic policies. Upon return to the IMF Headquarters in Washington, D.C., the staff presents a report to the IMF’s Executive Board for its discussion. The Board’s views are subsequently transmitted to the country’s authorities, concluding the Article IV consultation process. In recent years, surveillance has become increasingly transparent, with most members agreeing to publish a Public Information Notice (PIN) summarizing the views of the Board, as well as the staff report and accompanying analysis. Many countries also publish a statement by staff at the conclusion of an IMF mission (IMF, 2012).

Apart from providing data and information on monetary, banking and financial policies, the BSP facilitates the meeting of the IMF staff with technical personnel from various government agencies to discuss the country’s latest macroeconomic data and developments, the influence of a member’s policies on the external accounts, and potential vulnerabilities in the economy. This is followed by the Concluding Principals’ Meeting where the visiting IMF Staff meet with high-level officials of the National Government which include the BSP Governor, the Secretary of Finance, the Socio-Economic Planning Secretary, the Secretary of Budget and Management, the Customs Commissioner, the Commissioner of Internal Revenue, the Treasurer of the Philippines, among others, to validate their preliminary findings and data gathered during the technical meetings. Subsequently, a press conference is held to announce the conclusion of the IMF Article IV Consultations and discuss the information that has been shared with the visiting team. Upon the team’s return to the IMF headquarters, the staff prepares the Staff Report for discussion by the Executive Board before it is published as a PIN, subject to the consent of the Monetary Board of the BSP.

Regional Surveillance Activities

BSP Participation in the ASEAN Surveillance Process (ASP)

Prior to the ASP, its precursor the Manila Framework Group (MFG), was established in November 1997 by 14 Asia-Pacific economies which include ASEAN members plus Australia, Canada, New Zealand and the United States with an aim of serving as a forum for in-depth dialogue on regional economic surveillance and crisis management. However, as a framework for enhanced Asian regional cooperation to promote financial stability, the MFG involved the participation of the United States and reiterated the centrality of the IMF’s role in the international monetary system, an arrangement which was not entirely well received, particularly for Asian countries badly hit by the Asian crisis. As a result, the MFG slowly faded by the end of 2000 until it was replaced by the ASP which was seen to be more responsive to the surveillance and policy exchange needs of ASEAN member countries. Developed in October 1998, the ASP is the primary mechanism for regional information sharing, policy dialogue, and economic surveillance among ASEAN member states in the areas of monetary, fiscal and financial policies. An important output from the process is the ASEAN Surveillance Report (ASR) that uses economic and financial data directly provided by ASEAN countries, similar to the data supplied to the IMF.

Produced annually, the ASR covers latest data and development on the real and external sector, monetary and fiscal policies, financial data and social indicators of member countries. The report of the ASR is then used as basis for the policy exchange discussions during the ASEAN Finance and Central Bank Deputies Meeting (AFDM), before they are elevated for similar discussions of Finance Ministers at the ASEAN Finance Ministers Meeting (AFMM). During the AFMM, the ASEAN Finance Ministers are joined by the troika of Central Bank Governors composed of the past, present and future country chairs of the ASEAN Finance Process. The AFMM also conducts annual policy dialogue with the IMF on global and regional economic developments and challenges for central banks and the role of the ASEAN in the global economy. In the same meeting, the Finance Ministers engage in discussions with each other on important developments and policy issues confronting each member country. This exercise allows the members to keep abreast of each other’s internal economic developments which help them prepare for possible policy coordination and management of potential spillovers.
To strengthen the ASP, the ASEAN Integration Monitoring Office (AIMO) was established in 2010 with the primary task of assessing the state of financial integration in ASEAN, including periodic monitoring of various initiatives related to regional integration of financial markets. The work program of the AIMO also includes: (i) regular monitoring of developments in individual ASEAN, regional and global economies; (ii) maintaining a surveillance database; (iii) developing and implementing surveillance models and early warning systems; and (iv) preparation of policy and issue papers on regional macroeconomic and financial issues. The AIMO is also tasked to monitor and keep track of ASEAN economic and financial integration, in preparation for the achievement of an ASEAN Economic Community (AEC) by 2015.5

In support of the Philippines’ commitment to the AEC, the BSP actively participates in the ASP by supplying data and information on monetary, external and banking sectors, and facilitating the supply of data from other government agencies such as the Department of Finance (DOF) and the Bureau of the Treasury (BTr). The BSP also participates in the policy dialogues during the AFDM and AFMM, which is usually represented by the BSP’s Deputy Governor for Monetary Stability Sector and other officials from the DOF, to share with the other ASEAN member countries the recent economic and financial developments and policies in the Philippines.

**BSP Participation in the ASEAN+3 Economic Review and Policy Dialogue Process (ERPD)**

The ASEAN ERPD Process was introduced in May 2000. Under this process, the ASEAN+3 finance ministers meet annually during the bi-annual ASEAN+3 Finance and Central Bank Deputies Meeting (AFDM+3) and the ASEAN+3 Finance Ministers’ Meeting (AFMM+3), in order to exchange information and discuss policy issues involving economic and financial developments in the respective ASEAN+3 member countries. Similar to the ASP, the goal of the ERPD is to strengthen policy dialogue and coordination among member countries on financial and macroeconomic policy issues of common interest. The ERPD Process focuses mainly on issues related to risk management, monitoring of regional capital flows, reform of the international financial architecture and enhancement of self-help mechanisms. Other objectives of the ERPD are to: (i) assess global, regional and national economic conditions; (ii) monitor regional capital flows and currency markets; (iii) analyze macroeconomic and financial risks; (iv) strengthen banking and financial system conditions; and (v) provide an Asian voice in the reform of the international financial system.

During the ERPD Process, the ASEAN+3 finance ministers also have an opportunity to engage with representatives from the IMF, World Bank (WB), the Asian Development Bank (ADB) and more recently, the newly established AMRO to discuss economic developments and outlook views of the multilaterals for the ASEAN+3 region. In addition, since last May 2012, ASEAN+3 Central Bank Governors are also now included in the AFMM+3 meeting and is now collectively known as the ASEAN+3 Finance Ministers and Central Bank Governors Meeting (AFMGGM+3). The first meeting of the AFMGGM+3 was held in Manila last 3 May 2012 along the sidelines of the Asian Development Bank (ADB) Annual Meetings hosted by the Philippines.

The BSP’s participation to the ERPD occurs during the AFDM+3, usually attended by the BSP Deputy Governor for Monetary Stability Sector, and the AFMGGM+3 meetings which is attended by the Secretary of Finance and until recently, the BSP Governor. During the ERPD session, member countries report on the developments and progress in their respective economies, and proceed to exchange views on important issues in their economies. They also exchange views with representatives from multilateral agencies as previously mentioned.

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5 The ASEAN Economic Community (AEC) shall be the goal of regional economic integration in ASEAN by 2015. The AEC envisages the following: (a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy.
BSP Participation in the ASEAN+3 Macroeconomic Research Office (AMRO)

Apart from policy dialogue and exchange provided by the ERPD, the ASEAN+3 countries also set forth to intensify their cooperation in forming regional financial arrangements (RFAs). This initiative was brought forth by difficulties experienced by several IMF-assisted ASEAN+3 countries at the height of the Asian Financial Crisis, wherein strict lending conditionalities and policy adjustments prescribed by the IMF were believed to have resulted in economic contractions and financial meltdowns to several member countries (e.g., South Korea, Indonesia and Thailand). The dissatisfaction over the IMF’s perceived failure contributed to the motivations of ASEAN+3 countries to establish the then Chiang Mai Initiative (CMI), until its recent strengthening towards the Chiang Mai Initiative Multilateralization or the CMIM.6

To support the surveillance needs of CMIM and supplement the ERPD, the ASEAN+3 Macroeconomic Research Office (AMRO) was established as an independent regional surveillance unit in 2011. In particular, the CMIM was established to monitor and analyze regional economies, and to contribute to early detection of risks, swift implementation of remedial actions, and support the effective decision-making process under the CMIM.7

Headquartered in Singapore, the AMRO functions as a surveillance unit that will prepare quarterly consolidated reports to ASEAN+3 Finance and Central Bank Deputies on the overall macroeconomic assessment of the ASEAN+3 region, as well as individual member country reports. In preparing these assessments, the AMRO takes into account other reports from the ASEAN Secretariat (ASEC), the ADB, the IMF and the members’ respective private sector. Similar to the IMF Staff Visits, AMRO is also tasked to carry out annual consultations individually with its member countries, and develop and maintain an Early Warning System (EWS) for advanced detection of emerging vulnerabilities. Moreover, should a member country tap into or activate the CMIM, the AMRO is tasked to conduct macroeconomic monitoring of the swap requesting member country, as well as monitor the use of the borrowed funds and its compliance to lending conditions imposed pursuant to the CMIM Agreement.

In AMRO’s first consultation mission in the Philippines last July 2012, the BSP provided data on monetary, financial and banking statistics, as well as information on its monetary policy. The BSP also facilitated and coordinated the participation of other relevant government agencies in the mission’s visit, as well as arranged courtesy visits with the heads of the agencies. The BSP likewise provided funding support to AMRO by initially co-sharing with the DOF the contribution of the Philippines to its operational budget. Subsequently, the DOF has made arrangements to make the national government shoulder the entire cost of contribution to the AMRO as part of the international commitments of the Republic. The conversion of AMRO into an international organization is also underway, in order to institutionalize it as an independent surveillance entity with an exclusive mandate to serve the needs of the ASEAN+3 region.

BSP Participation in Other Surveillance Activities

Aside from the BSP’s participation in multilateral and regional surveillance as mentioned, the BSP also participates actively in policy exchanges and data and information sharing surveillance activities carried out under a number of regional and multilateral forums. These surveillance activities usually involve the members’ voluntary exchange, on a regular basis, of data and are mainly undertaken for purposes of promoting regional policy dialogue, peer review and information sharing.

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6 CMIM evolved from the CMI, the first regional currency swap arrangement launched by the ASEAN+3 countries in May 2000. The then CMI is composed of: (a) the ASEAN Swap Arrangement (ASA) among ASEAN countries; and (b) a network of individual bilateral swap arrangements (BSAs) among the ASEAN+3 countries. Initially, the total size of the CMIM Arrangement was US$120 billion, but this was doubled in 2012 to US$240 billion.

7 Based on the Joint Ministerial Statement (JMS) issued by the ASEAN+3 Finance Ministers’ Meeting (AFMM+3) held on 4 May 2011 in Hanoi, Vietnam.
Under the Executives’ Meeting of East Asia-Pacific Central Banks (EMEAP), the BSP participates in the data and information sharing activities of the EMEAP Monetary and Financial Stability Committee (MFSC) established in 2007, which is tasked to undertake macro-monitoring activities and enhance crisis management mechanisms in the EMEAP region. The MFSC was formerly chaired by the BSP from 2009-2012 and currently chaired by the Hong Kong Monetary Authority (HKMA). In addition, EMEAP central banks instituted a dialogue process among its members to promote monetary and financial stability in the region by undertaking an integrated regular macro-monitoring and risk management exercise. These exercises are undertaken through teleconferences, meetings, and workshops to discuss emerging issues in the areas of financial markets, banking supervision, payment and settlement systems, and other monetary and financial stability related topics.

The BSP also participates in policy dialogue activities under the Bank for International Settlements (BIS). The BIS is the world’s oldest international financial organization established on 17 May 1930 with headquarters in Basel, Switzerland and representative offices in Hong Kong and in Mexico. The BIS primarily caters to central banks and international organizations by providing them with investment and asset management services. As a shareholding member of the BIS, the BSP has played host to several important events of the BIS as well as collaborated in research projects undertaken in collaboration with other central banks and supervisory authorities in Asia and the Pacific. This include the BIS Meeting on Monetary Policy Operating Procedures held on 20-21 September 2010; the FSI-SEACEN Regional Seminar on Basel II/III: Pillar 2–Supervisory Review Process held on 13-15 March 2012; and the FSI-SEANZA Regional Seminar on Basel III and Liquidity Risk held on 8-10 May 2012 in Manila.

The BSP has also issued regulations that have contributed to the overall stability of the domestic financial system, by taking into consideration best practices and international standards set by the BIS. Many of these regulations were drawn from lessons learned from the Asian financial crisis and the recent Global Financial Crisis.

Issues on the Effectiveness of Regional Surveillance Mechanisms

Amid fast-paced regional economic integration and increasing interdependence, it is inevitable that countries will continue to affect each other economically, financially, politically and as recent climate change spillover shows, even environmentally. In managing economic and financial linkages, regional surveillance mechanisms are increasingly serving the need for a cooperative mechanism to identify vulnerabilities and help prevent crises. At the same time, they also serve as an effective framework for regional policy dialogue and cooperation to deal with policy spillovers, both to mitigate political tensions and to find scope for collaborative and coordinated actions. In effect, surveillance serves as the foundation upon which regional cooperative schemes can be built toward achieving greater regional stability.

Nonetheless, several concerns have been raised about the capacity of RFAs to conduct independent surveillance. Lamberte and Morgan (2012), borrowing from Eichengreen, argues that peer monitoring is costly and subject to increasing returns, suggesting that if scale economies are strong, there may be an argument for centralizing it at a global institution like the IMF. They also noted that there are arguments for assigning the responsibility of surveillance and conditionality to an entity outside the region, such as the IMF, that is better capable of following time-consistent policies. Some scholars likewise believe that an independent surveillance unit may provide contrasting assessments of vulnerabilities within the region, or when regional officials might be more candid with one another in surveillance discussions than in the presence of IMF officials.

Moreover, there is also plenty of room for improving and enhancing the scope, content and overall quality of output of regional surveillance mechanisms to be at par with the surveillance quality of the IMF. However, considering the enormous financial and technical resources devoted by the IMF to its surveillance activities, regional surveillance mechanisms may be hard pressed at the moment to match the same, given its limited resources and evolving
surveillance capabilities. There is also the question of what additional value may be gained from regional surveillance aside from local knowledge and insight, which remains difficult to implement and appreciate at the moment. Similarly, another question is how such a regional surveillance unit makes use of the assessments of other regional entities without duplicating its key findings as pointed out by Lamberte & Morgan (2012).

Notwithstanding these concerns regarding the effectiveness of regional surveillance mechanisms, there are indications for its continued development and progress, if recent developments in the gradual strengthening of AMRO as a surveillance unit are considered. The AMRO is undergoing various improvements in its technical expertise by recruiting highly competent staff, undergoing capacity building programs and having joint cooperation in technical and operational build up with other surveillance entities. It also continues to improve on its surveillance activities by gradually raising the quality of content, format and structure of its periodic surveillance reports.

Future Directions: Improving the Effectiveness of Regional Surveillance Mechanisms

Efforts to create and establish regional surveillance mechanisms are evidently shaped by the need to closely monitor fast evolving developments and inter-linkages in regional economies, which may potentially cause contagion. With this perspective, cooperation in surveillance appears to be the most pragmatic, convenient and workable public good solution for the region to address possible spillover effects. Considering that other institutions, particularly the IMF, are involved in surveillance, it may be useful for regional surveillance to assume a complementary role to global surveillance. Since the IMF already produces high-quality analyses of global and national economic developments, regional surveillance should increasingly focus on monitoring and providing recommendations on how to address policy spillovers and finding scope for collective action (Takagi, 2010).

There is also scope for regional surveillance to monitor systemically important financial institutions (SIFIs), both with global and regional presence, as warranted by the lessons from the global and EU crises. Recent developments which include the financial stability assessment of jurisdictions with SIFIs under OECD and BIS surveillance are also welcome developments as far as improved surveillance is concerned. Moreover, the other function of AIMO, which is to monitor regional economic integration, is another value added of regional surveillance.

Greater independence in regional surveillance mechanisms could also enhance their effectiveness. Independence ensures candor and impartiality in surveillance and assessment, especially when the identification of crisis vulnerability is involved. There must be both the right incentive and protection to encourage the staff of the independent surveillance unit to be candid in raising issues that authorities may find uncomfortable discussing openly. Finally, regional surveillance must aim to reach senior policymakers directly by using periodic fora of finance ministers and central bank governors, or better still, heads of state or governments. It is in such fora that the impact of peer pressure can be maximized. There is no reason to create a resident executive board of mid-level officials for an East Asian surveillance unit when appropriate forums for dialogue already exist (Takagi, 2010).

With regard to the newly established AMRO, there is a need to accelerate the development of its capacity and expertise as an independent regional surveillance mechanism. Towards this end, it should develop closer links with other regional organizations such as the ADB, the ADB Institute and the ASEAN Secretariat, as well as with global international financial institutions, such as the IMF, the World Bank, BIS, and the OECD in order to further improve, develop and broaden its surveillance capabilities and technical expertise.
Concluding Remarks

Regional surveillance mechanisms are helping bring East Asian policy dialogue and cooperation to a higher and deeper level by opening doors towards greater regional policy coordination and identifying ways of overcoming emerging economic vulnerabilities. Essentially, surveillance is now seen to contribute to the deepening of the dialogue process, allowing for a concerted approach to problem resolution, and acts as foundation for building viable regional institutions (AEM, 2009). In an environment where other public institutions, notably the IMF, conduct surveillance, it is more helpful if regional surveillance is designed to complement global surveillance. Since the IMF already produces high-quality global and regional surveillance analyses, the regional surveillance unit can have a relatively lean institutional setup for information gathering and dissemination. Over time, it is desired that regional surveillance increasingly focus on addressing policy spillovers and finding scope for collective regional policy responses.

Moving forward, AMRO is also seen to evolve into a regional monetary organization for East Asia, similar to the Arab Monetary Fund in the Middle East and the Latin American Reserve Fund (FLAR) in Latin America (Chalongphob, 2010). With recent steps being undertaken to convert AMRO into an international organization, it may well be expected that AMRO will perform a multitude of other activities to support various aspects of financial cooperation in the region, such as spearheading macroeconomic policy coordination, coordinating regional financial regulatory frameworks, contributing to capital market development as well as, in the long run, facilitating regional financial and monetary integration.

However, as Takagi (2010) notes, the primary determinant of success for a regional surveillance unit would be whether it can build its reputation, gather respect and establish its credibility to the public over time, based on the objectiveness of its findings, merits of its analyses and effective delivery of key messages. In particular, as the surveillance unit increasingly undertakes policy coordination over time, the need to build its reputation for neutrality, evenhandedness, and competence will become critical for its success. More importantly, it is the technical competence of the staff that shall help determine the quality of the surveillance output and recommendations of the surveillance unit.

References


