Asia's Role in the Post-Crisis Global Economy: Conference Summary

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The Federal Reserve Bank of San Francisco's Center for Pacific Basin Studies held the second in its biennial Asia Economic Policy Conference (AEPC) series with a program on "Asia's Role in the Post-Crisis Global Economy" on November 29–30, 2011. The program focused on the challenges faced by policymakers in both advanced and emerging economies, including Asia, in the aftermath of the financial crisis of 2007–08. The conference brought together experts from around the world and commissioned papers and other presentations by distinguished speakers. This chapter highlights the principal issues raised at the conference and summarizes the papers presented.

The economic recovery from the global financial crisis has proceeded at varying rates across advanced and emerging market economies. While many advanced economies have struggled with high unemployment and rising sovereign debt, many emerging market economies, particularly in Asia, recovered relatively quickly. In opening remarks on "Aggregate Demand and the Global Economic Recovery," Federal Reserve Board of Governors Vice Chair Janet Yellen acknowledges that emerging Asia made an important contribution to bolstering the global economy in the wake of the financial crisis. However, because the global economy faces an ongoing dearth of aggregate demand among advanced economies, she argues that it is crucial for emerging market economies, particularly in Asia, to take further steps to boost domestic demand, providing support for their own growth and that of the global economy.

In Yellen's view, many emerging market economies have the scope to bolster their domestic demand in the current environment. Such policies would also support stronger, more balanced, and more sustainable global economic growth, as well as enhance social welfare at home. Specific policy measures she mentions include increased public spending on social services that would spur consumption by reducing the need for precautionary household saving. In addition, government support could be shifted away from manufacturing toward encouraging service-sector development, which has typically lagged behind in emerging economies. Since services tend to have a higher nontraded component, faster growth of this sector would help rebalance growth toward domestic demand. Finally, exchange rate adjustments could play a crucial role in boosting emerging Asia's contribution to global demand.

Two presentations discuss the lessons for monetary policy from the financial crisis and the relation between monetary and financial stability policies. The recent financial crisis illustrated that cleaning up after financial disruptions can be very costly and should be avoided. Before the financial crisis, the common view, both in academia and in central banks, was that achieving price and output stability would promote financial stability by stabilizing asset prices and making asset price bubbles less likely. Although price and output stability are surely beneficial, the recent crisis indicates that a policy focus solely on these objectives may not be enough to produce good economic outcomes. Indeed, in some views, central bank success in stabilizing inflation and decreasing the volatility of business cycle fluctuations in the two decades before the crisis, popularly known as the Great Moderation, made policymakers complacent about the risks from financial disruptions.

Lars Svensson from Sweden's Riksbank argues in "Monetary Policy after the Crisis" that monetary policy is distinct and different from financial stability policy. In his view, it was not monetary policy but rather financial stability policy that failed, caused the crisis, and needs to be improved. He makes the case that flexible inflation targeting remains the best approach to monetary policy, using interest rate policy, communication about future intentions, and other unconventional instruments such as large-scale asset purchases when rates are at or close to the zero lower bound. He strongly supports publishing policy rate forecasts on a regular basis, based on both the existing practical experience of the Reserve Bank of New Zealand, Norges Bank, the Riksbank, and the Czech National Bank, and his belief that doing so directly affects long-term interest rate expectations, especially since central banks should have better information about their own intentions than market agents.

Svensson agrees that monetary policy should take financial stability policy into account, and vice versa. But under normal conditions, financial stability should be handled through financial policies such as banking regulations, not monetary policy. He argues that financial stability makes little sense as an objective of monetary policy. This objective is only for a central bank if the bank retains control over financial stability instruments. In many countries the situation is more complicated: Responsibility for monetary policy and control of monetary policy instruments, such as changing interest rate policy targets, rests with the central bank, while responsibility for maintaining financial stability is shared among several authorities, not always including the central bank.

Emerging market economies have been subject to increased inflows of foreign capital over the last few years, and some policymakers in those countries have expressed concerns about the risks of bubbles and other negative effects from such inflows. This has caused some observers to suggest that the effects on capital flows to other countries should be taken into account when, for instance, the Federal Reserve sets its monetary policy. Disagreeing with this conclusion, Svensson asserts that the problems of emerging markets to a large extent depend on the decision of these countries to stabilize their dollar exchange rate or even peg to the dollar. More expansionary monetary policy in the United States in the form of lower long rates tends to depreciate the dollar, all else equal. Indeed, countries that choose to peg to the dollar tend to import U.S. expansionary monetary policy. This may in some cases be too expansionary for these countries, overheating their economies and raising the risks of negative consequences, such as asset market bubbles. However, Svensson argues, these countries have the option of adopting more flexible exchange rates and conducting independent monetary policy that is more appropriate for their objectives. If countries choose a peg to the dollar in spite of the risks, they themselves are responsible for the outcome.

The traditional approach to financial regulation focuses on maintaining the soundness of individual financial institutions. In the case of banking regulation, that focus typically takes the form of requirements on minimum capital for individual banks as a proportion of their risk-weighted assets. In their paper, "Macroprudential Policies in Open Emerging Economies," Joon-Ho Hahm at Yonsei University, Frederic Mishkin of Columbia Business School, Hyun Song Shin at Princeton University, and Kwanho Shin of Korea University provide an overview of the policy options that can complement traditional tools of bank regulation and the tools of monetary policy in reining in the excesses in the financial system. They maintain that the case for flexible inflation targeting is as strong as ever, but macroprudential policies are needed as a first line of defense against credit booms to guard the fragility of bank liabilities. In particular, they argue that macroprudential policies should aim to constrain excessive growth in bank lending during booms as well as the emergence of vulnerabilities on the liability side of bank balance sheets.

Hahm et al. provide an overview of macroprudential tools. These include administrative rules that limit bank lending, such as caps on loan-to-value ratios and debt service-to-income ratios, which may complement the traditional tools used in banking supervision. Countercyclical capital requirements and forward-looking provisioning that lean against the credit or business cycle, that is, rise with credit growth and fall with credit contraction, can also promote financial stability and reduce systemic risk. In addition, they provide evidence that the ratio of core to noncore liabilities provides information about leverage cycles and a good measure of the banking sector's exposure to risk. For example, in Korea noncore liabilities are highly procyclical and unresponsive to domestic monetary policy, but are highly responsive to U.S. monetary policy. Consequently, the authors suggest that limiting this ratio can be a useful macroprudential tool.

Eswar Prasad and Lei Ye of Cornell University in "The Renminbi's Role in the Global Monetary System" analyze the growing internationalization of the renminbi through its use in the denomination and settlement of cross-border trade and financial transactions. Renminbi trade settlement in Hong Kong has expanded rapidly, the issuance of renminbi-denominated bonds both in Hong Kong and mainland China is picking up, and some central banks are considering holding renminbi-denominated assets in their foreign exchange reserve portfolios. Nonetheless, the authors conclude that while internationalization of the renminbi is steadily growing, it is a long way from attaining full convertibility or meeting other prerequisites for achieving reserve currency status. Progress will require more exchange rate flexibility and more openness of China's capital account.

Prasad and Ye document the increasing openness of China's capital account in both de jure and de facto terms through selective and cautious changes, consistent with the active promotion of the renminbi as an international currency. However, they argue, in most cases constraints on capital inflows and outflows have been merely relaxed rather than eliminated entirely. China still has a substantial capital control regime in place. In their view, China faces only modest risks from a more open capital account in terms of vulnerability to external shocks. The bigger risks arise from the improper sequencing of capital account liberalization, greater exchange rate flexibility, and domestic financial market reforms. A fixed or tightly managed nominal exchange rate makes it harder to cope with capital flow volatility because the exchange rate cannot act as a shock absorber.

This combination of policies also reduces the independence of domestic monetary policy, impeding the central bank's ability to use monetary policy instruments such as interest rates to maintain domestic price stability. Broader and deeper financial markets help absorb capital inflows and direct them to productive activities and, more broadly, help to cope with capital flow volatility. In the absence of a more flexible exchange rate and a better-developed financial system, a more open capital account can impair financial stability and constrain monetary policy. Thus, Prasad and Ye argue that China runs the risk of putting the cart before the horse by pushing capital account liberalization more aggressively than exchange rate flexibility and financial system reforms.

Last, the authors discuss the prospects for the renminbi as a global reserve currency. Attaining reserve currency status has various benefits, including seigniorage revenues from abroad, as inflation reduces the value and the cost to China of foreign (and domestic) investors' holdings of the currency. It also would provide easier access to cheap foreign financing of debt issued in the domestic currency, an advantage that in the case of the United States has been termed an "exorbitant privilege." To the extent that this status results in a greater denomination of trade transactions in China's own currency, domestic importers and exporters would face lower currency risk. The potential costs of having a reserve currency include reduced control of the currency's external value and possibly a more volatile exchange rate. However, while China is actively promoting the internationalization of its currency, Prasad and Ye believe it is a long way from attaining full convertibility or meeting other prerequisites for achieving reserve currency status. Thus, although the renminbi will play an increasingly important role in the international monetary system, it is unlikely to displace the U.S. dollar anytime soon.

Justin Lin of the World Bank in his remarks on "China and the Global Economy" discusses China's achievements since the beginning of economic reforms in 1979, as well as the prospects for China's future growth. As Lin describes, China was still a low-income country in the 1970s, when its income per capita was less than one-third of sub-Saharan Africa. After beginning its reform process, China achieved an annual growth rate of 9 percent between 1979 and 1990, which remarkably rose even higher to 10.4 percent between 1990 and 2010. Such an extended period of high growth in such a populous country is unique in the world's history. Moreover, Lin maintains that China has the potential to maintain an 8 percent annual growth rate for another two decades, enabling China to act as an engine of global growth. He attributes China's remarkable performance over the past 30 years to its ability to implement structural economic reforms in an environment of relative stability. In addition, as a latecomer, China was able to develop according to its comparative advantage and tap into the technologies already developed in advanced countries.

As is well-known, an excessive share of China's GDP is devoted to investment and a correspondingly low share is accounted for by private consumption expenditures. Nicholas Lardy of the Peterson Institute for International Economics in his remarks on "Sustaining China's Economic Growth after the Global Financial Crisis" discusses how Chinese policymakers are seeking to address the country's unbalanced growth path and sustain its growth in the future. In Lardy's view, this unbalanced pattern of aggregate demand is primarily attributable to financial repression, as reflected in a negative real return on household savings. Since 2004, the inflation-adjusted return on a one-year deposit in Chinese banks has averaged –0.4 percent, far below the average rate of 3 percent between the late 1990s and the early 2000s.

The negative real return on financial savings has decreased private consumption expenditures in two ways. First, it has depressed household interest income and dampened household spending. Second, it contributed to a sharp increase in the rate of household savings, since Chinese households put aside a larger share of their after-tax income when the return on their savings declined. This is perhaps not surprising in an economy where the pension and health-care systems are relatively underdeveloped and many households lack access to any retirement or health insurance schemes and thus essentially are self-insuring.

In addition to depressing spending, negative real deposit rates combined with other features of the Chinese economy also have fostered greater investment in residential property assets and contributed to a sustained rise in residential property investment. First, China's capital account is largely closed, meaning that Chinese households cannot easily invest in foreign currency-denominated stocks, bonds, or other financial assets, restricting investments to domestic assets. Second, the Chinese domestic stock market is marked by insider trading and other abuses. Thus, the average Chinese household does not regard domestic equities as a viable long-term investment class.

The combination of these factors has induced Chinese households to allocate a growing share of their savings to residential property. As a result, household investment in residential real estate exceeded 10 percent of GDP in 2011, an all-time record high. In response, the government has taken measures to curb housing demand, including limiting the purchases of residential property units by individuals who do not intend to occupy the properties. In December 2009 the government doubled to 40 percent the required down payment to qualify for a mortgage on a property that was not the owner's primary residence, while in April 2010 the government raised this ratio to 50 percent, introduced higher interest rates for mortgages on nonprimary residences, and in many cities prohibited households from purchasing more than two properties, regardless of how they are financed.

Lardy concludes that the most important policy change the Chinese government could adopt to stimulate domestic consumption and thus alleviate the imbalance in its economy would be to resume the process of interest rate liberalization that was halted in 2004. This does not mean immediately eliminating all remaining central bank control of lending and deposit rates, but rather resuming the process of allowing successively larger bands around the rates that the bank sets. In particular, the asymmetric liberalization that occurred until 2004, in which the benchmark interest rates set by the central bank on loans are floors while benchmark rates set on deposits are ceilings, should be modified with the goal of moving toward more market-oriented determination of interest rates. This would encourage consumption by raising household income and simultaneously reducing the average household saving rate.

The second day of the conference began with two papers concentrating on international relationships within Asia and between Asia and the rest of the global economy. In the first paper, "Asian Regional Policy Coordination," Ted Truman of the Peterson Institute for International Economics addresses the prospects for greater regional cooperation and integration in Asia as well as whether more regional policy coordination would provide a substitute for global coordination.

He agrees that Asia would benefit from more regional policy coordination, but argues that focusing solely on the goal of insulating Asia from global policy coordination efforts—what he calls "Asian exceptionalism"— is unlikely to be successful. His argument is two-fold: First, Asian economies are sufficiently heterogeneous in a number of dimensions that they are unlikely to find mutually advantageous grounds for much deeper regional coordination. Second, the recent financial crisis refutes the notion that any region of the global economy is so isolated that it can ignore global spillovers. Thus Asian policy coordination cannot and should not ignore the broader global economy.

Truman reviews the extent of Asian policy coordination, concluding that it has reached a stage of common "surveillance," involving reviews of the economic and financial policies of participating countries and the adoption of some common standards or joint policy actions, such as the regional currency swap facility created through the Chiang Mai Initiative. Still, different views across countries pose barriers to deeper policy coordination. Truman refers to experiences during the global financial crisis to demonstrate that opportunities for policy coordination tend to be temporary. While countries were quite willing to cooperate in multilateral efforts at the depth of the crisis, focus reverted to domestic issues as soon as conditions calmed.

Truman believes that the extent of policy coordination that can be achieved is also hampered because of ambiguity in the appropriate definition of "Asia," particularly given the heterogeneity in size and economic development across the region. Although the levels of economic development within Europe are much closer than in Asia, even there substantive coordination problems have arisen from differences in country characteristics and economic conditions. Truman presents evidence that various groupings of Asian countries are about as economically integrated as is the euro area—more so with respect to unemployment, less so with respect to growth, and about the same with respect to inflation. But given the considerable differences in economic development among the core countries of Asia (China, Japan, India, and Korea), he is skeptical about the prospects of achieving deep forms of policy coordination with common objectives and regular policy adjustment.

Last, Truman examines the appropriate relationship between regional and global policy coordination through participation in multilateral organizations such as the International Monetary Fund. He grants that a lack of proper surveillance may have contributed to the European crisis, and posits that greater regional coordination may have helped Europe as well as Asia, perhaps through more pooling of foreign exchange reserves. However, he cautions regions can never be totally self-reliant and therefore should care about policies of governments outside of the region as well as the role of multilateral organizations.

In the final paper presentation, "Global Imbalances and Global Liquidity," Pierre-Olivier Gourinchas of the University of California at Berkeley argues that the global financial crisis demonstrated a need to reassess the way global imbalances are interpreted. In particular, he maintains that proper assessment of financial stability should be based not on traditional measures, such as current account balances, but rather on global liquidity imbalances that account for liquidity mismatches over time and across countries. This measure would focus on national funding risk, and provide a better indicator of impending financial difficulties.

Gourinchas examines the buildup of global imbalances prior to the financial crisis, paying special attention to the role of the United States. He notes that in the boom period prior to the crisis, the U.S. current account position actually modestly improved, while ultimately unsustainable financial excesses were building up, supporting his view that current account balances provide an inadequate picture of a country's financial vulnerability.

To illustrate the role that financial balances may play in a funding crisis, Gourinchas formulates a model to demonstrate that gross financial positions are important potential determinants of illiquidity and crisis vulnerability. In particular, he distinguishes between private and public debt positions, with the distinction that the latter are usually heavy in short-term debt liabilities, leaving them vulnerable to funding difficulties regardless of the nationality of their creditors. Thus, in the event of fiscal difficulties, capital outflows may lead to a balance of payments crisis, even if a country's current account was roughly in balance initially. In this framework, the country's vulnerability is determined by its inability to roll over maturing liabilities rather than by the nationality of the holders of public debt.

Gourinchas emphasizes that equity-like instruments are used less often than debt to finance international imbalances due to information asymmetry, because sellers of risky claims typically have more information about their value than buyers. This implies that debt instruments, which typically require less information to monitor, may be the preferred method of funding, despite their vulnerability to default. However, debt instruments may become less preferred if default becomes more likely. If this happens, increased knowledge about the debtor's situation is more valuable, which Gourinchas characterizes as the instruments becoming more "information sensitive." Similarly, issuing longer maturity debt, which can allow a debtor to weather a temporary adverse shock, may not always be desirable. Short-term debt can better discipline borrowers and address moral hazard issues, since borrower incentives are better aligned with those of creditors when they know that they must service their debt obligations more promptly.

Based on the analysis of his model, Gourinchas suggests using a liquidity coverage ratio, defined as the ratio of short-term *pledgeable* claims to maximum short-term funding outlays, as a measure of a country's vulnerability. Putting this measure into operation is difficult, however, since the components in both the denominator and numerator are difficult to construct. Moreover, in many cases the offset of funding outlays is not automatic. Just because an asset could be applied to pay off a liability does not mean that it will happen in practice. This is particularly true for sovereign obligations, where a government may possess adequate assets to service its nominal debt liabilities but refuses to do so.

Gourinchas provides empirical evidence of how differences in international illiquidity across regions and time have played a role in the vulnerability to crises. He explains that the vulnerability of euro-area economies was particularly high because the European banking system requires ready access to dollar assets, while the U.S. banking system has little need for euro-denominated liquid assets.

He also points out that the United States historically has been a net liquidity provider to the rest of the world because its assets include foreign equity and direct investment, while its liabilities are predominantly more liquid securities. More recently, however, Europe has become a liquidity provider to the United States through the extensive investments of its commercial banks—notably in securitized real estate assets—which are financed through U.S. wholesale funding markets. The rest of the world, in contrast, served as a liquidity sink, building up their holdings of foreign reserves at a rapid pace.

However, as the European situation deteriorated, private dollar funding available to European commercial banks suddenly declined. This posed a problem, since obtaining funds by U.S.-based European subsidiaries from the Federal Reserve using the discount window was seen as signaling weakness, while borrowing from the European Central Bank was initially expensive due to the 100 basis point premium charged by the Fed on these funds. Private interbank swap markets also showed signs of stress. Consequently, Gourinchas argues that the reduction in the Fed premium on swap line borrowing significantly eased the dollar funding difficulties of European commercial banks.

The conference next featured a policymaker panel discussion on "Policy Reforms after the Crisis." In the first presentation, Jun Il Kim, Deputy Governor and Chief Economist of the Bank of Korea, discussed "Global Policy Challenges in the Post-Crisis Period." Kim credits aggressive U.S. and European monetary and fiscal policy responses to the financial crisis with avoiding another Great Depression. He also contends that the global economy is still hampered by excessive leverage. Although efforts to deleverage are likely to be contractionary, he suggests that Japan illustrates the need for orderly deleveraging over time. The need for fiscal space for continued expansionary fiscal policy in the short term requires agreeing on long-term fiscal tightening to anchor public expectations of long-term fiscal sustainability.

Kim also argues that regulatory responses to the crisis are required. In particular, he recommends that regulatory reforms focus more on systemic risk but not be so stringent as to hinder investment and economic growth. He acknowledges that efforts towards increased regulation in advanced economies might affect emerging market economies as well by discouraging risk-taking and investment by global financial institutions in these economies. Indeed, fluctuations in capital flows from advanced economies played an important role in previous emerging market crises, and current policy reforms may dampen capital flows into emerging markets. Hence, the implications of policy reforms for capital flows between advanced and emerging countries should be considered in the design of the post-crisis regulatory framework.

In addition, the Deputy Governor notes that the international swap arrangements set up by the Federal Reserve with several emerging market economies played an important role in calming markets during the crisis. He supports creating a global financial safety net to address future international liquidity needs, which might curtail global imbalances by reducing emerging market nations' temptation to increase their holdings of foreign reserves through current account surpluses. Though the extension of funds to emerging market economies might expose lending central banks to credit risk, in his view the risk feeding back from an emerging market crisis could be far worse. He also argues that the threat of a global safety net increasing moral hazard is likely to be exaggerated because the cost of crises would remain sufficiently severe to keep moral hazard issues in check.

Kim concluded his remarks with a review of Korea's experience during the crisis. Korea entered the crisis with strong macroeconomic conditions and a large stock of reserves that masked its vulnerability to external shocks. However, its ability to tap its foreign reserves was limited when the crisis hit, as fears that its stock was dwindling too rapidly led to further capital outflows. In response, Korea adopted a number of policy reforms, including limits on exposure to short-term debt and a levy on foreign currency liabilities, with higher premia on shorter-term liabilities. In addition, the Bank of Korea Act gave the central bank new powers for pursuing macroprudential regulation and added the pursuit of financial stability to its price stability mandate.

Ryuzo Miyao, Policy Board Member of the Bank of Japan, spoke on a "Macroprudential Perspective on Monetary Policy." Miyao argues that the central cause of the financial crisis lay in the formation and bursting of an asset price bubble, facilitated by the use of new financial instruments, particularly derivative products. These new instruments led to a rapid increase in leverage and raised global vulnerabilities on a scale that was not fully appreciated during the asset boom.

Miyao says monetary policy tools should play a role in limiting asset price bubbles before crises erupt because their power is limited afterward. He acknowledges that this view is controversial, but claims that since disruptions from asset price bubbles could increase output and price level instability, containing bubbles in advance falls squarely under the purview of monetary policy. However, he acknowledges that monetary policy conducted solely through interest rate changes may not be sufficient to counter asset bubbles without also damaging economic activity. Consequently, he advocates the use of macroprudential tools, such as limiting loan-to-value ratios of systemically important financial institutions, as well as countercyclical capital buffers.

Miyao then examines the case of Japan, which experienced financial difficulties for some time before the global crisis and entered the crisis with a variety of macroprudential policies in place. By 2006, the Bank of Japan had already been considering financial imbalances, such as the prevalence of currency and maturity mismatches in its financial system, in its assessment of financial stability.

Subsequent to the 2007–09 crisis, the Bank of Japan also stated that shrinking financial imbalances was a prerequisite for ending its zero interest rate policy. However, Miyao acknowledges that detection of financial imbalances sometimes proved difficult. The Bank of Japan therefore has been engaged in efforts to better detect and understand the effects of asset price bubbles, in concert with multilateral efforts at the International Monetary Fund and the Bank for International Settlements.

In the final panel presentation, Norman Chan, Chief Executive of the Hong Kong Monetary Authority, presents his views on the causes of the financial crisis. He notes numerous potential explanations for debt buildup before the crisis, including financial innovation, which allowed the extensive use of securitization, relatively low interest rates, which lowered the cost of borrowing, and the relatively high appetite for risk inspired by low yields and a general feeling of optimism. These factors all left it easier to obtain credit, particularly for real estate finance.

However, Chan primarily attributes the crisis to what he termed a market failure. Extremely low yields on debt prior to the crisis reflected a misperception held by the market that the large debt levels built up by Greece and other countries were sustainable. This perception led to weaker fiscal discipline in Europe as well as excessive leverage in the United States. Since the root cause of the crisis was excessive leverage, Chan argues that the only way to fully recover from the crisis was through deleveraging by the United States and other countries. While Hong Kong suffered its own painful housing bubble collapse, Chan says it has recovered, restructured, and emerged as a more resilient economy. He argues that similar reforms were needed in the United States, including better assessment by rating agencies of the creditworthiness of exotic derivatives and raising both the quality and quantity of required capital, as recommended by the Basel Committee.

In a closing address, Barry Eichengreen of the University of California at Berkeley notes that the title of the conference—"Asia's Role in the Post-Crisis Economy"—had proven to be quite prescient, as global discussions had recently centered on the possibility that Asian countries, either directly or through the International Monetary Fund, might be called upon to provide resources to help European countries stabilize their financial positions. Eichengreen also highlights the importance of global trade to Asia, and how the collapse of trade during the crisis revealed an important vulnerability in the region. This new appreciation of global trade's importance introduces an opportunity for the region to help construct a more robust global economy.

Eichengreen warns that the proper vehicle for pursuing macroeconomic stability is less apparent. While conference papers identify opportunities for pursuing macroeconomic stability at the national, regional, and multinational levels, the program unfortunately lacked a paper on fiscal policy, where challenges to the pursuit of macro stability are currently paramount.

Given threats to financial stability, Eichengreen believes that both monetary and fiscal policymakers needed to step up and respond as the last line of defense. Still, the most desirable policy response is not always clear. For example, last resort lending is an obvious monetary policy response after a crisis has hit, but what is the role for monetary policy prior to a crisis? Should that be left to regulators, or is a monetary policy response to the perceived development of financial froth also appropriate?

Eichengreen notes the need for more global regulatory coordination, and expresses disappointment that the most recent Basel negotiations failed to agree on an international standard for countercyclical capital requirements. He also comments that the IMF can play a constructive role in limiting cross-border policy spillovers, but to do so, existing quotas and executive board representation will need to be rebalanced to give Asian countries more of a voice. However, he expresses disappointment that some Asian countries have not "been able to get over their IMF phobia."

Eichengreen points to regional responses to the 1997–98 crisis, such as the Chiang Mai Initiative Multilateralization, the ASEAN+3 Macroeconomic and Research Office (AMRO), the Asian Bond Fund, and the Asian Bond Markets Initiative, but notes that Chiang Mai has yet to be used, and AMRO has concentrated on research rather than surveillance. He argues that the vast differences in political systems across Asia and in stages of economic development have played a role in limiting the achievements of regional Asian institutions. This contrasts with the European Union, where adherence to certain norms, such as democracy, rule of law, and human rights, are prerequisites for entry. He also comments that the "ASEAN norm" of not interfering in the affairs of individual countries hinders regional surveillance in Asia. Finally, Eichengreen notes that the European crisis aptly demonstrates the limitations of regional cooperation.