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Positioning of the FRMS

Relationships with Existing International Financial Institutions

The Framework for Regional Monetary Stabilization (FRMS) is proposed to avoid recurrence of currency, financial, and economic crises in East Asia, and to attain sustainable economic development and prosperity in both member nations and in the region. Its functions are devised to strengthen the immunity of member nations against future crises and, in the event of such crises, to swiftly inject liquidity into crisis-hit countries within the region. To achieve its goals, the FRMS will be prepared to establish and maintain close cooperative relationships with existing international financial institutions such as the IMF, the IBRD, and the ADB; the FRMS may provide support to such IFIs in certain cases, and may also ask for assistance from them.

In conducting surveillance, the FRMS will attach great importance to surveillance in East Asia, which enhances the scope of “on-the-ground” studies in member nations and in the region. The FRMS will be ready to provide IFIs with the results of its regional surveillance, to contribute to better understanding by them of the latest economic, financial, and social situations of member nations. The FRMS will also be ready to disclose to IFIs its studies and research conducted on various issues in the region. Information pertinent to the region will be of good help to IFIs in deciding their policies related to East Asia. The FRMS will expect in return to have easy access to data from IFIs, especially their surveillance, which will surely benefit the FRMS in deepening and enriching its own surveillance and recommendations to its member nations.

The FRMS will also be ready to cooperate with IFIs in monitoring implementation of policy recommendations prepared by them for a member nations, and in arranging and managing financing to member nations. Thereby, the FRMS will complement and cooperate with IFIs. The IMF, the IBRD, and the ADB will be expected to participate in a committee to be established by the FRMS, in which all surveillance reports are to be discussed and all policy recommendations checked. The FRMS will be ready to receive staff seconded from IFIs, who will be expected to play roles in the surveillance teams of the FRMS.

Relationship with the IMF:

Since the FRMS and the IMF will have the same objectives as international financial institutions (i.e. prevention and resolution of currency, financial, and economic crises), the relationship with the IMF is of utmost importance to the FRMS. Since the FRMS will conduct regional surveillance with “on-the-ground” studies in its member nations, their results accompanied by opinions on the economic, financial, and monetary circumstances of the countries surveyed, once disclosed, must be quite informative to the

IMF, and should enhance the IMF's understanding of countries in the region. The FRMS will support the IMF in this regard, and hence may be seen as supplemental to it. These two institutions should maintain close communication with each other, to minimize differences in their observations and understanding of economic, financial, and social conditions in member nations. Such differences could have major effects on the recommendations and conditions to member nations, which could cause confusion and, at worst, create moral hazards.

The principle of maintaining close communication with the IMF will enable each of the two financial institutions to establish efficient and effective conditions on any crisis-hit country, without crucial discrepancy.

When emergency lending is needed in case of a crisis in the region, the FRMS will endeavor to inject liquidity into the crisis-hit country in concordance with the IMF. The IMF will be expected to cooperate with the FRMS, toward smooth implementation of such cooperative financing.

Relationships with Other International Financial Institutions:

The main objectives of the IBRD and the ADB are fostering economic growth, supporting structural reforms, and reducing poverty in developing nations, whereas those of the FRMS and the IMF are prevention and resolution of currency crises. The likelihood of mutually complementary relationships with these institutions appears clear. The FRMS will cooperate with the IBRD, the ADB, and other IFIs, as well as with the IMF, in conducting surveillance and in utilizing fundamental economic data on each country in the region.

Relationships with Countries in the Region

East Asian nations will be expected to participate in the FRMS and become its members, beginning with ASEAN countries and China, Japan and Korea (ASEAN+3 countries). Membership will be accompanied with some obligations to bear and some benefits to enjoy, which will be stipulated in due course. Each member will regularly be requested to provide the FRMS with the latest information on its domestic economic data, with human resources, and with money to cover allotment of operating expenses and emergency liquidity support in cases of crisis. The FRMS will intend to promote transparency among member nations, stimulating disclosure of their economic data and policy dialogue.

Member nations will especially be expected to accept and observe policy recommendations by the FRMS, which is crucial to success of the framework. The economic, financial, and fiscal conditions of each member nation will be examined through surveillance by the FRMS, and other member nations will check how the surveyed country succeeds in complying with policy recommendations by the FRMS. Members are expected to be cooperative in the decision-making process at the General Meeting and at the Board of Executive Directors.

Relationships with Countries outside the Region

The FRMS will not be an exclusive organization that disallows admission of non-ASEAN+3 countries. It will keep the door open to newcomers, and welcome entry of countries that hope to join it, under the condition of observing covenants stipulated for membership, including sharing the burden of expenses and rescue-package disbursements.