An Overview of Regional Financial Cooperation: Implication for BRICS Contingent Reserve Arrangement

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Abstract: This article briefly reviews the history of the regional financial cooperation development after World War II, analyzes in detail the cause of this phenomenon; researches the experience in financial cooperation between EU and Asian region (ASEAN, China, Japan and South Korea) and its reference significance for BRICS contingent reserve arrangement; and based on relevant policy experience, puts forwards several countermeasures and suggestions for construction of BRICs contingent reserve arrangement. Such suggestions include to strengthen mutual economic and commercial intercourse, fortify foundation of contingent reserve arrangement; establish independent monitoring mechanism and launch core economic indicators convergence plans; strive to strengthen mutual trust and cooperation in politics among BRICs; actively promote the institutionalization of BRICs contingent reserve arrangement to establish the status of international legal person; actively promote the use of national currencies of BRICs, especially the application of RMB in currency swaps.

Key Words: Regional financial cooperation, BRICs experience and Contingent reserve arrangement

I. Introduction: Emergence of Regional Financial Cooperation

Regional financial cooperation means the cooperation in the financial field through methods such as international agreement, other institutional arrangements, economic policy coordination, policy dialogue etc. among several countries in a region with close economic and commercial intercourse. The financial cooperation can be divided into long-term arrangement focusing on financial development and short-term arrangement focusing on liquidity support. The former is mainly to promote economic development of different countries through establishing various medium and long-term financing arrangements, with such typical institutions as Asian Development Bank, African Development Bank, Inter-American Development Bank and Asian Infrastructure Investment Bank which is under construction etc. The latter is mainly to respond to liquidity shortage. Therefore, most such types of cooperation occur during or after the international financial crisis and are related to the crisis response and prevention, with such typical institutions or arrangements as European Stability Mechanism (ESM) and Chiang Mai Initiative and its Multilateralization (CMI, CMIM) etc.

In the past several decades, regional financial cooperation frameworks were established now and then in order to respond to the financial turbulence, with the more influential ones including Union Monétaire Ouest African and Central Africa Currency Union which were established in 1962 and 1973 respectively and took the former French colonial countries as its members; European Monetary Cooperation Fund which was launched and established by the European Community countries in 1973 to respond to the global exchange rate turbulence after the dollar crisis; Arab Monetary Fund which was established by the Middle East and North African countries in 1977 and ASA which was signed by five ASEAN in 1977; Latin America Reserve Fund which was established by some of Latin American countries in 1978; CMI which was signed by ASEAN+3 in 2000; Common Reserve Library and CMIM Arrangement which are formed and developed based on CMI in 2008 and 2010 respectively; EFSF and ESM which were established by the Eurozone countries in order to respond to the European sovereign debtcrisis in 2010 and 2013 respectively. Although these regional financial cooperation arrangements have different specific establishment backgrounds, scales and operation mechanisms, their similarities are that all arrangements were made in the financial turbulence period andthey jointly responded to the regional financial instability, even financial crises to further promote economic prosperity and development in the region through mutually providing liquidity support among the member countries.

Theoretically, the regional financial cooperation is rational to some extent. In the early 1960's, the economists represented by Robert Mundell (1961), Ronald McKinnon (1963) etc. elaborated the rationality of the regional monetary and financial cooperation from perspectives of significance and conditions for establishing the most optimum monetary area. In their opinion, to establish fixed exchange rate arrangements as well as mutually enhance liquidity support and other financial cooperation in a region with close economic and commercial intercourse can obtain higher monetary efficiency. Of course, the establishment of such monetary and financial cooperation framework must be based on the free flow of production factors and sufficient coordination of economic policies of all countries in the region. Based on the structural interdependence theory, Richard Cooper (1968) emphasized that the economic conditions between two countries or among several countries would be impacted by their economic situations and policy making under the case of common economic interdependence. Confronting such complex situation, one of countermeasures that one country can take is to accept integration and give up its national sovereignty and jointly make economic targets and economic policies with other countries.

In recent years, economists have given theoretical interpretation from the perspective of joint crisis response and maintenance of regional financial stability. For example, Jose Antoniou Ocampo, professor of Columbia University (2006) thought that the rationality of regional financial cooperation was embodied in the following three aspects: (1)The combination of open "regionalism" and globalization makes the externality of the macroeconomic policy of the specific country to be significantly increased, i.e. Policy-making of one country often has obvious overflow and contagion effects in its neighboring countries and thus the regional policy coordination is needed; (2) While the globalization has obviously weakened the economy policy autonomy of one single country, the regional cooperation may be the only choice to reserve the policy autonomy to some extent; meanwhile, the international financial institutions such as International Monetary Fund (IMF) will get better scale economies effects while providing assistance for a certain region; (3) The middle and small countries will get better assistance conditions if there are some regional financial stability mechanisms and such mechanism can to some extent compete with the global institutions such as IMF.

It's also worth pointing out that a key cause of the continuous increase of the regional financial cooperation frameworks about liquidity support in recent years is difficulties confronted by the global crisis response mechanism represented by IMF and sever insufficiency of the global financial safety network except for the basic causes such as increasing globalization of economy and finance of all countries and increasingly frequent and sever international financial turbulence. At present, from the perspective of international economic cooperation framework, the global arrangements confront lots of difficulties, coordination costs are increased and the efficiency is decreased and thus various regional arrangements have more development opportunities. Confronting the international financial crisis, IMF is too harsh on the loan conditions, rather than timely providing sufficient liquidity loan support. To a large extent, the appearance of various regional financial arrangements is a response to insufficient supply of the global financial safety mechanism, which is an effective supplement to the latter.

II. Historical Experience of Regional Financial Cooperation and Its Reference

Limited by the size of this article, the author will mainly analyze the financial cooperation in the Eurozone and financial cooperation of ASEAN+3 under the Chiang Mai Initiative (CMI) to expect to get some value references from experience study of these typical cases.

(I) Financial Cooperation in Eurozone

Till now, the monetary and financial cooperation in the Eurozone is undoubtedly the most successful practice. Since early in 1970's, after the crash of the Bretton Woods System, the former European Community countries (now EU countries) decided to implement "linked floating of exchange rate" (i.e. focus on the central exchange rate in the zone and implement the linked floating for the currency in other zones), which was evolved into European exchange rate mechanism. In 1990's, with promotion of Treaty of European Union and through construction of "unified large market", coordination of microeconomic policies and convergence efforts, the European exchange rate mechanism was finally evolved into the single currency- Euro. From then on, Euro showed its tenacious vitality although it went through twists and turns even crises for several times, including the sovereign debt crisis in the Eurozone since 2010.

Except for monetary cooperation, the countries in the Eurozone have lots of positive development in the financial cooperation field, with the highlight of the establishment of the assistance mechanism represented by EFSF during the sovereign debt crisis period in 2010. After the outburst of the sovereign debt crisis, the Eurozone quickly took actions to not only actively seek for assistance from the international communities, but also shift its attention to the zone to expect for self-rescue. The establishment of EFSF was one of the important measures and EFSF played an important role in avoiding further spreading of the debt crisis. In June 2013, in order to better prevent the liquidity impact in future, the EU summit conference decided to establish ESM, a permanent crisis response institution to replace the due EFSF.

1. European Financial Stability Facility

European Financial Stability Facility (EFSF for short) is a regional emergency relief facility approved and established by EU in May 2010. This Facility was registered in Luxembourg and its operation and management was maintained by German Debt Management Office. Its main tasks are mainly to provide the Eurozone countries confronting the debt crisis with liquidity support, including (1) Provide the member countries with financial difficulties with loans; (2) Intervene with the first and second-level bond markets; (3) Provide preventive support and (4) Provide financial support for the financial institutions of the member countries through their governments[1].

According to EFSF Framework Agreement passed by 17 EU countries in June 2010, the total capital amount of EFSF was €440 billion, which was contributed by all member countries according to certain proportion. The proportions committed by Germany and France were the highest, accounting for 47.4%; followed by Italy and Spain, with their committed proportions of 17.9% and 11.9% respectively; the total commitment of four of them accounted for 77.1% (Table 1). From

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[1] The official website of the European financial stability fund， http://www.efsf.europa.eu/attachments/2015-03-19%20EFSF%20FAQ.pdf

then on, due to continuity of European sovereign debt crisis, all countries in the Eurozone expect EFSF to make greater contribution to mitigate the crisis. Through negotiation, all countries signed the revised EFSF agreement at the European Submit Conference in July 2011, with the capital scale to be expanded to €780 billion and it was officially put into operation in October 2011.

Since its launch, EFSF together with other capital sources such as IMF, EU etc. provided Ireland and Portugal with rescue funds in succession. In the assistance program of € 85 billion for Ireland, Ireland financed €17.5 billion by itself for assist its banking industry; the rest €67.5 billion was externally financed, with €22.5 billion from International Monetary Fund (IMF), €22,5 billion from EU through EFSM and €17.7 billion from Eurozone countries through EFSF. Meanwhile, EU but non-European countries provided €4.8 billion of bilateral loans. For the assistance for Portugal, EFSF provided about €26 billion of capital. After about 2 years of the operation of the expanded EFSF agreement, according to the articles of incorporation and EFSF framework agreement signed by 17 EU countries, EFSF ceased the financing program and loan distribution on July 1, 2013. However, it did not mean the complete shutdown of EFSF. EFSF will continue to complete the financing programs for Ireland and Portugal according to the previous agreement.

Table 1: EFSF Capital Sources

Ranking	**Country**	**Initial undertaken amount (**€ 1,000,000**)**	**Percentage**	**Undertaken amount after expansion (**€ 1,000,000**)**	**Percentage**
1	Germany	€ 119,390.07	27.13%	€ 211,045.90	27.06%
2	France	€ 89,657.45	20.38%	€ 158,487.53	20.32%
3	Italy	€ 78,784.72	17.91%	€ 139,267.81	17.86%
4	Spain	€ 52,352.51	11.90%	€ 92,543.56	11.87%
5	Holland	€ 25,143.58	5.71%	€ 44,446.32	5.70%
6	Belgium	€ 15,292.18	3.48%	€ 27,031.99	3.47%
7	Greece	€ 12,387.70	2.82%	€ 21,897.74	2.81%
8	Austria	€ 12,241.43	2.78%	€ 21,639.19	2.78%
9	Portugal	€ 11,035.38	2.51%	€ 19,507.26	2.50%
10	Finland	€ 7,905.20	1.80%	€ 13,974.03	1.79%
11	Ireland	€ 7,002.40	1.59%	€ 12,378.15	1.59%
12	Slovakia	€ 4,371.54	0.99%	€ 7,727.57	0.99%
13	Slovenia	€ 2,072.92	0.47%	€ 3,664.30	0.47%
14	Luxembourg	€ 1,101.39	0.25%	€ 1,946.94	0.25%
15	Cyprus	€ 863.09	0.20%	€ 1,525.68	0.20%
16	Malta	€ 398.44	0.09%	€ 704.33	0.09%
17	Estonia			€ 1,994.86	0.26%
	Total	€ 440,000.00	100.00%	€ 779,783.16	100.00%

Data source: European Financial Stability Fund Framework

Agreementhttp://www.efsf.europa.eu/attachments/20111019_efsf_framework_agreement_en.pdf

As far as the capital sources of EFSF are concerned, although different countries committed themselves to provide capitals for EFSF, such capitals are not actually provided capitals. In other words, the committed capital in Table 1 cannot be considered to be capitals of EFSF. In fact, such committed capitals are similar to credit guarantee and their real meaning is that all countries will provide EFSF with capitals to compensate when EFSFsuffers any losses. The capital of EFSF is actually raised from the market through financing instruments such as bonds issuance. EFSF issues bonds to the market to raise capitals and relends the raised capitals to the governments of member countries.

In order to reduce the credit risks of EFSF, except for the committed capitals of all countries, EFSF also designs a credit enhancement method for excessive guarantee, i.e. it defines that the capital application of EFSF cannot exceed certain proportion of the committed capital, which is an important method to reduce the credit risk of EFSF.EFSF initially set the excessive guarantee proportion as 120%, while the revised EFSF increases it to165% to reduce its financing costs. In fact, all large rating agencies have grade AAA for EFSF.

Different capital uses of EFSF have different specific regulations and conditions. Generally, if the member countries apply for loans from EFSF, the conditions required in MOU reached by all countries and Council of Europe should be added. For example, in the assistance program for Ireland, the additional conditions include to strengthen the banking sectors, reduce the financial deficit and carry out economic reform especially the labor market reform etc. If such conditions cannot be met, the loan assistance will be ceased till a new agreement is reached.

Except that the requirements mentioned in MOU should be met, there are also some special requirements and limitations for different use methods of the capital of EFSF. For example, for the first-level bond market intervention, the purchase amount of EFSF should not exceed 50% of the issued amount; EFSF can resell the purchased bonds, hold them till they are due, sell them back or use them for liquidity management as repurchase agreement product; for the preventive loan assistance program, the loan amount should not exceed 2%-10% of GDP of this country, with the assistance duration of 1 year and twice extension periods can be carried out, with each of 6 months. The loans as support for the financial institutions cannot be directly provided to the financial institutions without through the government of member country and the member country is required to carry out reform for the financial institution.

2. European Stability Mechanism

EFSF is a temporary financial stability program. In order to guarantee the lasting political stability in the region, the EU leadership submit decided in July 2012 to establish a permanent financial stability mechanism, i.e. "European Stability Mechanism, ESM for short)" to replace the temporarily established EFSF. ESM is a permanent inter-governmental international organization which follows the public international law and is to maintain the financial stability of all member countries in EU. According to the European Stability Mechanism Treaty signed by 17 member countries of EU, the capital fund of ESM is jointly provided by 17 countries and the ways of contribution include cash payment and call up the capital. In March 2014, Latvia joined ESM and thus the number of member countries of ESM increased to 18 from then on.

According to the provisions of European Stability Mechanism Treaty (hereinafter referred to as Treaty),ESM will transfer the capital for providing the member country of ESM with financial stability support when it goes through or is confronting server threat of financial issue. ESM mainly finances through issuing bonds or other debt instruments on the financial market or through signing agreement with its members, financial institutions or other third organizations etc. The main leading organs of ESM are Council[2] and executive board of directors of ESM[3]. The votes are taken by ESM's member countries for the selection of its Council and executive board of directors. The Treaty also stipulates the authorized capital stock of ESM, conditions to call for payment from the member countries, procedure to change the authorized capital stock, rules of preventive financial assistance of ESM, loan distribution process of ESM, investment principles for ESM in the first and second-level markets etc. (European Stability Mechanism, 2103)

The Treaty also explicitly stipulates the capital sources of ESM. 17 countries provide the total capital fund of €700 billion. €80 billion is paid in cash and the rest €620 billion exists in the form of call-capital. Such capital fund of ESM gives it the borrowing power of €500 billion. What is similar to EFSF is that the first four capital injection countries of ESM are still German, France, Italy and Spain, with their total ESM contribution rate of 77%. In March 2014, after Latvia joined ESM, the capital fund of ESM increased to €701.9 billion, with €80.2 billion capital stock in cash and €621.7 billion call capital.

2. Each member country of ESM can recommend a full member of the Council and a candidate of Council member. The corresponding candidate of the Council member can act as a full-fledged member of this full member when he or she cannot be present with reason. The power of the Council includes calling up capital from member countries, changing the authorized capital stock, modifying the maximum loan amount of ESM, changing the pricing policy and guideline of the financial aid, changing the financial instrument selected when carrying out the financial aid etc.
3. Each full Council member of ESM can appoint one executive director and one executive director candidate and the corresponding executive director candidate can act as a full-fledged member of this executive director when he or she cannot be present with reason.

According to the provisions of the Treaty, each ESM member should fully pay their initially subscribed share at 20% each year within 5 years by installment; each ESM member should pay their down payment within 15 days after the effectiveness of the Treaty and the rest four payments should be paid by installment in the first, second, third and fourth anniversary after the payment date of the initial payment; meanwhile, during the five years of the capital payment by installments, in order to guarantee no less than 15% of the capital loan and banking power of €500 billion, the members of ESM should accelerate to pay their subscribed share. As of April 30, 2014, ESM has achieved its target of paid-up capital of €80 billion.

The assistance of ESM is mainly achieved through loans and ESM can directly purchase the national debt of the debtor nation or directly inject funds to the problem bank of the member country. Since the establishment of ESM, although there has been a violent argument about whether to provideassistance for Spain, no actual assistance has been provided till now. However, because ESM is actually evolved from EFSF, during the "transition" period after the launch of ESM and before the closure of EFSF, two organizations employ the same staff, which is similar to "two signs but one group of staff".

Since its establishment, ESM has provided financial assistance for Spain and Cyprus in succession. The financial assistance program for Spain from July 2012 to December 2013 was the first financial assistance program since the establishment of ESM. ESM provided Spanish government with total loan of €41.3 billion for recapitalization of the banking industry. The entire assistance program is independently carried out by ESM, without obtaining the financial assistance of other international financial institutions. The financial assistance is carries out in the way of bonds issuance, including the short-term bonds of 2~10 months and floating rate bonds of 18 months~3 years. The financial assistance of ESM includes provisos of the banking sector, including in-depth banking reform program, financial system management and regulation reform etc. which comply with the assistance rules of the EU countries.

In March 2013, ESM decided to provide loans with IMF for Cyprus, with ESM providing €8.968 billion, while IMF providing €10 billion. Such loans will be used to help Cyprus reduce the leverage ratio of the financial sector, stabilize the finance, carry out the structural reform, promote privatization and so on. It is worth noting that such assistance provided by EMS has a nature of medium and long-term structural adjustment. According to the memo signed by both parties, the loans will be paid by installment, with the average duration of 14.88 years (see Table 2).

Table 2 Funds Provided by ESM to Cyprus and Their Dates

Appropriation date	Appropriation amount	Repayment period	Accumulated appropriation amount
13/05/2013	€2 billion	13/05/2027	€2 billion
26/06/2013	€1 billion	26/06/2028	€3 billion
27/09/2013	€1.5 billion	27/09/2030	€4.5 billion
19/12/2013	€0.1 billion	19/12/2029	€4.6 billion
04/04/2014	€0.15 billion	04/04/2030	€4.75 billion
09/07/2014	€0.6 billion	09/07/2031	€5.35 billion
15/12/2014	€0.35 billion	15/12/2025	€5.7 billion

Data source: ESM，http://www.esm.europa.eu/assistance/cyprus/index.htm.

2. Some Successful Experiences

First, pay attention to establish an effective governance structure to timely provide assistance. EFSF is a limited liability company headquartering in Luxembourg and is a business entity, with Klaus Regling, a former director of EC Economic and Financial Affair Department acting as the first CEO. Therefore, EFSF is managed according to the marketization principle and framework of "corporate governance". 17 member countries in the Eurozone are shareholders of this organization and the equity is held according to their proportions in ECB. The member countries respectively appoint directors to supervise the operation of this organization and the decision to make loans must be agreed by all directors (i.e. Euro group). The corporate governance structure ensues to avoid mutual argument due to uneven assistance burden after the crisis outburst to define the liabilities of each party in advance.

Second, according to the assistance requirement, timely expand the capital scale and business type to enhance the assistance capacity. In more than one year, the scale of EFSF is expanded from €440 billion to €780 billion, effectively enhancing the assistance capacity. In addition, EFSF also decides, through providing the government of the assistance applying country with loans (no matter whether this country has been incorporated into the package loan program) to increase the banking system capital of this country or buy back the bonds which are issued by the government of this country. Under the case that the market situation has severely impacted the financial stability in the Eurozone, EFSF can actively intervene with the first and second-level bonds market of the relevant country based on the prevention purpose with agreement of the member countries. It is worth noting that the assistance loan provided by ESM to Cyprus in 2013 showed that the European Stability Mechanism not only provided the short-term emergency loans, but also the medium and long-term structural adjustment loan taking the lasting stability of the financial sector as a target has become an important type that this organization supports.

Third, the assistance procedure is strict and the necessary loan conditions are added. According to the provisions, the capital of EFSF is often jointly provided with the assistance capital of EU and IMF (it does not mean that EFSF cannot independently make loans). In such case, the loans of EFSF actually add strict policy adjustment conditions. Such loan conditions include the following: the assistance applying country must reorganize the finance; must take measures to strengthen the domestic banking system and must reform the labor market to restore the economic flourishing and sustainable growth.

Fourth, reasonably use the credit enhancement method to reduce the credit risk and financing cost. The paid-up capital of EFSF is very limited and the contribution commitment of the member countries is actually to provide the loan credit guarantee. The capital for the recipient country is actually financed from the market through issuing bonds. In actual operation, once the assistance application is approved, EFSF will issue the financing instruments (such as bonds) to the market accordingly. After the relevant expenses and loan loss reserves are deducted, the financed capital will be lent to the assistance applying country. Due to the guarantee of the contributing country, the credit rating of the financing instrument is often appraised to be grade AAA, ensuring that the capital cost is sufficiently low. It is worth nothing that the initial guarantee proportion of 120% (the revised EFSF increases the excessive guarantee proportion to 165%) is required due to the excessive guarantee of EFSF, which further reduces the financing risk and cost.

Fifth, timely replace the temporary arrangement of EFSF with the permanent mechanism of ESM to achieve the lasting stability of the financial market in the region. In July 2012, the EU Submit decided to establish the "European Stability Mechanism". Although this permanent assistance mechanism is born out of the temporary arrangement of EFSF, its system structure and assistance capacity are incomparable (Table 3). Its establishment is known to fill the gap of the assistance mechanism of the Eurozone and has important historical significance for strengthening the financial cooperation of the member countries in the Eurozone. Regling, CEO of EFSF and president of ESM calls official effectiveness of ESM "milestone".

Table 3: List of Differences and Similarities between EFSF and ESM

	EFSF	ESM
Legal form	Private enterprise following the Luxembourg law	International organization following the public international law
Duration	Temporary	Permanent
Capital structure	Guaranteed by the member countries in the Eurozone	Paid-up capital of €80.2 billion Call-capital of €621.7 billion
Maximum banking power	€192 billion (borrow loans from Ireland, Portugal and Greece according to the signed agreement)	€500 billion
Creditor's qualification*	Ordinary creditor	Preferred creditor **
Possible applications - Sovereign financing - Bank reorganization - Second-level bond market intervention - First-level bond market intervention	 Yes Yes Yes Yes	 Yes Yes Yes Yes
Credit rating	AA / Aa1 / AA+	-/ Aa1 / AAA
Risk weight	0%***	0%***

* Creditor's qualification means the sequence that the creditor obtains the compensation when the debtor breaks the contract. Under general case, the preferred creditor can take the priority to obtain the compensation than the ordinary creditor.

** Exceptional case: For the special bonds issued by ESM for recapitalization of the Spanish banking sector, the creditor's qualification is the ordinary creditor.

*** According to the announcement issued by Basel Committee on Banking Supervision on March 18, 2014, the risk weight of the bonds issued by EFSF and ESM was 0%. Please see Regulation (EU) No. 575/2013, Article 118.

Data source: EFSF & ESM New Investor Presentation, November 2014.

(II) Financial Cooperation in Asian Region

1. History and Achievements

The construction of Asian Financial safety network can be traced back to ASA signed by five countries of ASEAN in 1977 at the earliest. According to this agreement, the short-term currency exchange can be carried out among Indonesia, Malaysia, Philippines, Singapore and Thailand to respond to the temporary liquidity issues. The total price of this agreement is $0.1 billion, with the duration of 1-3 months and the extension period should not exceed 3 months as needed. This agreement is launched 5 times since its signature. As a whole, the scale and impacts of this agreement are very limited. During the Asian financial crisis period in 1997, Japan proposed the concept to establish Asian Monetary Fund, but it was not extensively approved by the main Asian economies and thus there was no opportunity to implement it.

In May 2000, in order to establish more extensive liquidity assistance mechanism in the region, ASEAN, China, Japan andSouth Korea proposed CMI at the "10+3" conference through active efforts of different parties. According to this Initiative, the swap agreement among member countries mainly includes three parts, namely ASA among 10 ASEAN countries, BSAs between ASEAN, China, Japan andSouth Korea and Repo between ASEAN and China, Japan as well as South Korea. As of the end of 2008, under the CMI framework, ASEAN, China, Japan and South Korea "10+3" had signed 16 bilateral currency swap agreements, with the total amount of $ 84 billion. CMI is not used in several years after its signed due to various reasons, although it is development of great historical significance. In 2008, South Korea, Singapore etc. directly carried out currency swap with the Federal Reserve, rather than sought for assistance from the liquidity arrangement under CMI although they confronted the impacts of the global financial crisis.

In May 2008, it was decided at the conference of treasury secretary of ASEAN, China, Japan and South Korea to establish a joint reserve library under CMI framework, i.e. the member countries incorporate some of their foreign exchange reserve into the directional capital, which will be used as the assistance capital when necessary. The scale of this reserve library is $80 billion, with total amount of contribution of China, Japan and South Korea of 80% of the total and the rest 20% is provided by 10 ASEAN countries. This joint reserve library lays foundation for multilateral construction of CMI two years later. In May 2010, on basis of the joint reserve library, ASEAN, China, Japan and South Korea passed CMIM and tried to form a more effective regional financial safety network. According to this agreement, the scale of the reserve library jointly constructed by all parties reached $120 billion, with China contributing $38.4 billion, Japan contributing $38.4 billion and South Korea contributing $19.2 billion, accounting for 32%, 32% and 16% of the total amount of the reserve library respectively. The rest was financed by ASEAN. The agreement also stipulated the borrowing multipliers of all member countries, which were used to determine the assistance amount of all countries. In 2011, as one of important steps of the CMIM system construction, "ASEAN+3 Macroeconomic Monitoring Office" (AMRO) set in Singapore was officially established and operated. In 2014, the capital scale of CMIM was expanded to $240 billion; meanwhile, on the basis of the former standing assistance facility (SF), the preventive loan instruments are added, which was to provide assistance for the member countries which have crisis omens, but their macro economy is healthy to prevent them to be caught in the crisis. Table 4 is the distribution situation of the capital scale of CMIM, borrowing multiplier and maximum limit of the currency swap and right to vote after expansion.

Table 4: Distribution Situation of the Capital Scale of CMIM, Borrowing Multiplier and Maximum Limit of the Currency Swap and Right to Vote after July 2014

Country		Amount of contribution ($ 1 billion)		Proportion (%)		Purchase multiplier	Maximum swap amount ($ 1 billion)	Basic right to vote	Right to vote based on the amount of contribution	Total right to vote	
											%
China, Japan and Korea		**192.00**		**80.00**			**117.30**	**9.60**	**192.00**	**201.60**	**71.59**
China	China (excluding Hong Kong)	76.80	68.40	32.00	28.50	0.5	34.20	3.20	68.40	71.60	25.43
	Hong Kong		8.40		3.50	2.5	6.30	0.00	8.40	8.40	2.98
Japan		76.80		32.00		0.5	38.40	3.20	76.80	80.00	28.41
South Korea		38.40		16.00		1	38.40	3.20	38.40	41.60	14.77
ASEAN		**48.00**		**20.00**			**126.20**	**32.00**	**48.00**	**80.00**	**28.41**
Indonesia		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Thailand		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Malaysia		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Singapore		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Philippines		9.104		3.793		2.5	22.76	3.20	9.104	12.304	4.369
Vietnam		2.00		0.833		5	10.00	3.20	2.00	5.20	1.847
Cambodia		0.24		0.100		5	1.20	3.20	0.24	3.44	1.222
Myanmar		0.12		0.050		5	0.60	3.20	0.12	3.32	1.179
Brunei		0.06		0.025		5	0.30	3.20	0.06	3.26	1.158
Laos		0.06		0.025		5	0.30	3.20	0.06	3.26	1.158
Total		**240.00**		**100.00**			**243.50**	**41.60**	**240.00**	**281.60**	**100.00**

Source: The official website of AMRO

http://www.amro-asia.org/about-amro/history/country-representation/

As a whole, from CMI to joint reserve library to CMIM, the Asian financialcooperate gets lots of active progress (see Table 5). However, due to various reasons, this process is not so smooth as imagined and its effects are not actually verified.

Table 5: CMIM Milestone

May 2000	Chiang Mai Initiative (CMI)
May 2002	ERPD
2003-2004	Assessment period
May 2005	The connection ratio of the loan to fund organization conditions reduced to 80% from 90%
May2008	Reserve library capital of $ 80 billion established
May 2010	CMIM established, with the assistance capacity of $120 billion
April 2011	AMRO operated and CMIM institutionalization achieved
July 2014	Assistance capacity of CMIM expanded to $240 billion Preventive loan instrument (PL) added Further reduced the connection ratio to the fund organization conditions to 70%

Source: Gao Haihong (2015)

2. Problems

1) The inadequate operative mechanism**.**As a foreign exchange reserve pool which is managed by the member countries and coordinated and used when necessary, the CMIM has relaxed operation mechanism. As far as its operation is concerned, CMIM carries out the bilateral domestic currency and dollar swap under the multilateral framework, i.e. if some member country has crisis, other member countries will jointly sign the bilateral currency swap agreement with this assistance applying member country. According to the agreement, the recipient country purchases the dollars of other member countries with its domestic currency; after the swap is due, the recipient country repurchases its domestic currency with dollar and pays the interest. If there is no crisis, all member countries will manage their own foreign exchange reserve according to their own will. In addition, according to "escape clause" in the CMIM agreement, before the Decision Committee consisting of the treasury secretaries of all member countries vote for the assistance application, any member country can be exempted from the liability to carry out current swap with the assistance applying country after providing the sufficient evidence and getting the approval of the Decision Committee (YungchulPark and Yunjong Wang, 2005). Therefore, CMIM is a relaxed multilateral assistance commitment mechanism, lacking final binding.

2) Insufficient scale. The scale of the Asian financial safety network is always limited. Under the CMI framework, all bilateral currency swap amount is only $84 billion. ChalongphobSussangkarn (2011), former secretary of Thai treasury has pointed out that the symbolic effects of CMI are greater than its actual effects due to small capital scale and high proportion of connection with IMF loan. It can partially interpret the reason that no country has ever launched the swap agreement since CMI is signed. However, in the current stage, it is unrealistic to further greatly expand the scale of CMIM. In fact, as far as the crisis assistance practice in the Eurozone is concerned, the contemporary intervention of multichannel assistance should be becoming the main manner for liquidity assistance (Gao Haihong, 2015). For example, the assistance of €110 billion obtained by Greece in 2010 included not only the capital of the fund organizations, but also 15 bilateral swap agreements arranged by EC; the assistance of €7.5 billion obtained by Latvia in 2008 included resources of the fund organizations, World Bank and resources of some Central Banks of EU and Europe. $66 billion obtained by South Korea in 2008 were from the swap capital of Central Banks of USA, China and Japan. Such multichannel provides assistance at the same time, which has become an effective mode of emergency crisis relief.

3) Connection with IMF loan. The direct cause that the Asian countries develop the regional financial cooperation is related to crisis assistance loan of IMF. In 1997, when the East Asian countries and regions confronted the impacts of the financial crisis, IMF failed to actively respond to the loan request of the crisis country, or added harsh loan conditionality even it promised to provide the loan. However, when CMI was implemented, due to lack of effective regulatory system, in order to guarantee the benefits of the investors, all member countries had to agree to connect the assistance capital launched through the currency swap under the Chiang Mai Agreement Framework with the loan conditions of IMF. This connection proportion was 90% in the early stage. In May 2005, the conference of secretaries of the member countries first reduced the connection ratio of launch of capital swap under CMI and loan conditions of IMF to 80% from 90%. In July, 2014, it was reduced to 70%. Although lots of member countries expected that this proportion can be further reduced even completely canceled in future, it must be clearly realized that if the Asian countries could not establish effective economic monitoring and policy dialogue mechanism, it would be impossible to further reduce this proportion; otherwise, the benefits of the lending countries or contributing countries would be not effectively guaranteed. In 2011,"10+3 Macroeconomic Policy Monitoring Office" (AMRO) was established by considering to construct an economic monitoring and policy dialogue mechanism of the Asian countries. However, the role of this mechanism is still limited in real life because of financial resources, personnel etc. In order to completely replace the monitoring role of IMF, AMRO may have a long way to go.

4) Lack of politically mutual understanding and trust. It is an age-old issue for the East Asian countries to have political mutual trust. As two largest economies in 10+3 regional financial cooperation framework, China and Japan has never ceased their mutual distrust even conflict due to historical reasons. In fact, during the CMIM negotiation, all countries especially China and Japan had lots of disputes about issues such as amount of contribution, right to vote, address selection of AMRO, determination of monitoring framework etc. Meanwhile, some ASEAN countries are always nervous about rise of China. At present, CMIM uses a vote decision system of "double majority", i.e. the decision should meet the conditions of majority countries and majority vote at the same time. (AMRO, 2012) such mechanism actually gives effective veto to ASEAN countries to balance influence of China, Japan and South Korea on CMIM. It is worth noting that the theoretic research and lots of experience analysis show that the success of regional financial cooperation depends on absolute leading force to a great extent. It is difficult to imagine that the economic and financial cooperation of the European countries can successfully develop without joint leading of Germany and France. Likewise, it can be inferred that it is difficult for the financial cooperation in Asia to achieve actual success without leading of the large countries. It means that efforts of China and joint efforts of China and Japan will be the key for development of the Asian financial cooperation in future.

5) Issued about economic monitoring and policy dialogue. Like the global liquidity assistance mechanism of IMF, the regional financial safety network also needs a corresponding economic monitoring and policy dialogue mechanism to reduce the crisis probability and prevent the moral risks. The economic monitoring and policy dialogue can have several manners, such as information exchange of the regulatory level, establishment and implementation of early warning system of crisis, regular economic policy coordination and daily follow-up monitoring for the borrower countries etc. In May 2002, as an important step of the implementation of CMI, “10+3” established ERPD. In April 2011, in order to coordinate the implementation of CMIM, “10+3” decided to set up AMRO in Singapore, with the purpose to monitor and analyze the economy in this region, so that the potential risks can be timely found. However, limited by expenditure, professional staff etc. AMRO is still in the initial period and there is a great restriction for it to perform its economic monitoring function. In addition, due to complexity of the East Asian economy, ARMO does not work very smoothly. Therefore, AMRO is often in an awkward situation.

（III） Common Experience and Its Enlightenment

First, the regional monetary and financial cooperation is based on the integration of economy and trade of all countries in the region. The European and Asian experience shows that regional financial cooperation must be based on mutual interdependence and interest. Obviously, the formation and development of mechanisms such as EFSF, ESM, CMI and CMIM all reflect the common interest of all countries in the region. Generally speaking, the reason why one country is willing to join a monetary and financial cooperation framework and actively take part in relief when its neighboring country suffers financial turbulence is that such financial turbulence will directly impact its own economic and financial stability. In other words, the high degree of integration and relevance of economy and trade of all countries in the region provide foundation for mutual financial cooperation and liquidity assistance.

Second, successful cooperation requires certain political prerequisites, including strong political will to take part in cooperation of 1-2 independent or joint leading economic countries and all other countries. The European monetary and financial cooperation can be traced back to the exchange rate arrangement of "linked floating" in 1970's. For decades of years, the overall achievements are significant, although there have been some difficulties. Its successful evolution should be attributable to the joint will and firm stand of Germany and France to strengthen the cooperation in the region to a great extent. As far as the Asian monetary and financial cooperation is concerned, its overall achievements are barely satisfactory, although there are lots of active progresses from CMI to CMIM. The main reason is that there is no necessary mutual trust between China and Japan and thus a powerful core of regional financial cooperation cannot be formed. At the same time, various suspicions of East Asian Countries for China also hinder the rapid development to some extent.

Third, the international financial crisis is an important factor to trigger the regional monetary and financial cooperation (especially to respond to the liquidity support arrange of the crisis). In early 1970's, the direct reason of the exchange rate arrangement of "linked floating" in the EC countries and establishment of "European Exchange Rate Mechanism" later is to respond to the global currency turbulence resulted from collapse of the Bretton Woods System. The European sovereign debt crisis directly triggers EFSF and ESM. In Asia, the Asian money fund proposed by Japan, CMI and CMIM are directly derived from the request to respond to the financial crisis impacts. Such experience shows that the international financial crisis may be a favorable opportunity to actively develop regional financial cooperation. Of course, it is a problem which is worth to be discussed even at goal to be pursued about how to make the temporary arrangement last after the crisis.

Fourth, the additional conditions accompanying the short-term liquidity support loan should be not too strict or relaxed. If it is too strict, it will weaken the application will of the using country and if it is too relaxed, it will result in moral risk and damage the interest of the contributing country. ESM always keeps close relation with IMF. Even if it does not cooperate with IMF, the proviso is also added for its loan. The IMF system is a relatively effective financial supervision system and the proviso is also an effective mechanism to effectively help all countries to improve their financial systems and help countries which are caught in the crisis solve problems and repay the loan. However, the proviso has the political intervention nature to some extent for the sovereign countries, and thus it cannot be accepted by the governments of all countries. Because there is now no other financial mechanism arrangements to effectively prevent the moral risk, it is unrealistic to thoroughly give up the proviso. Therefore, it is a problem which is worth to be studied about how to make all countries have regional cooperation willingly accept the proviso.

Fifth, the independent regional cooperation agency is helpful for enhancing the financing capacity. EFSF and ESM are companies jointly funded by their member countries, which have independent status of a legal person and can independently issue bonds which are guaranteed by the collective credit of the EU member countries in the European market. In contrast, CMIM has no independent status of a legal person, so that its capital scale is only limited to the amount of contribution which all member countries commit. It cannot finance through issuing bonds like EFSF and ESM, limiting the capital scale and capacity of CMIM to provide crisis assistance. The independent legal entity agency requires the strong support of the governments of all member countries. ASEAN+3 have never made it due to lack of capital and personnel although they always try to make ARMO an international financial institution.

III. BRICS Contingent Reserve Arrangement and Its Prospect: Several Suggestions Based on the Related Experiences with Regional Financial Cooperation.

On July 15, 2014, Zhou Xiaochuan, president of People's Bank of China on behalf of the Chinese government signed a Treaty for Establishing BRICS Contingent Reserve Arrangement (hereinafter referred to as BCRA Treaty) with other BRICs representatives in Fortaleza, Brazil. According to the BCRA Treaty, the swap scale of the BRICs contingent reserve arrangement is $100 billion, which is actually provided by 5 BRICs according to certain proportion commitment when necessary. This arrangement focuses on maintaining the financial stability of the member countries of BRICs and providing short-term liquidity support when the member countries confront the balance of payment pressure, especially the massive short-term capital inflows and outflows. Such arrangement can become a favorable supplement, although it cannot replace the global liquidity support arrangement. In a broader sense, the establishment of BRICs contingent reserve arrangement is a significant try to jointly respond to the global challenges and create a trans-regional financial safety network for the emerging marketing economies and significant effort to strengthen South-South cooperation, having significance to enhance the influence and right of speech of BRICs in the international economic affairs and promote the global economic governance system to develop in a fair and reasonable direction.

（I）Basic Framework

First, about nature. BRICSContingent Reserve Arrangement (BCRA for short) is a multilateral swap agreement having no independent status of a legal person, which is similar to CMIM. According to the agreement, the member countries are entitled to apply for the capital limit of the contingent reserve arrangement when confronting the liquidity stress and carry out the currency swap with other member countries within the limit according to certain financing conditions. In other words, there is no capital transfer among member countries before the borrowing request of any member country is proposed and approved. The amount of contribution of all countries is actually a committed amount. According to the Treaty, the total initial scale of the committed amount is $100 billion, including $41 million contributed by China, $18 billion by Brazil, Russia and India respectively and $ 5 billion contributed by South Africa.

Second, about governance. The decision-making agencies of BCRA are Council and Executive Council. The former consists of president of the Central bank or secretary of treasury, while the latter consists of the officers of the Central Bank. The Council is responsible for handling the fundamental affairs, such as modification review for the amount of contribution committed by different countries, new member approval and modification of the loan proportion connected with IMF etc. The Executive Council is responsible for handling the administrative and operational affairs, such as approval of applying for obtaining the liquidity support, approval of the extension period of the liquidity instrument and approval of operation of the liquidity instrument etc.

The significant decision of BCRA should be voted and the plurality rule is followed. The distribution of the right to vote is divided into two levels, including 5% total right to vote with equal distribution for all parties and the rest is distributed according to the amounts of contribution committed by different parties. According to the above-mentioned principle, China has 39.95% right to vote, Brazil, Russia and India have 18.1% right to vote, while South Africa has 5.75% right to vote.

Third, about money borrowing and its conditions. According to the amount of contribution of the member countries and determined borrowing multiplier (0.5 for China, 1 for Brazil, Russia and India and 2 for South Africa), the maximum capital limits can be obtained as follows: $20.5 billion for China, $18 billion for Brazil, Russia and India and $10 for South Africa. The capital assistance instruments of BCRA include liquidity instrument, which is for mitigating the actual short-tem balance of payment stress and preventive instrument, which is for mitigating the potential short-tem balance of payment stress. No matter which kind of capital instrument is used, 70% amount should be connected with the loan conditions of IMF, i.e. there should be sufficient evidence to show that the applicant has normally operated loan arrangement with the International Monetary Fund. It means that the International Monetary Fund commits to provide the capital for the applicant according to the loan conditions and the applicant strictly follows all articles of this loan arrangement.

When using the above-mentioned capital instruments, the member country can submit an application to purchase dollar with its domestic currency from the central bank of other member countries, with the maximum amount of the capital amount multiplied by borrowing times and the applicant should sell dollar to the lending country to repurchase its domestic currency when it is due. Other member countries share the liquidity support limit applied by the applicant according to their committed amounts of contribution. When the swap is carried out, the used spot rate and forward exchange rate are determined on the basis of the corresponding exchange rate of the domestic current of the applicant to dollar. The swap rate is increased on the basis of international current benchmark interest rate and will be regularly increased within the life of loan till reaching the upper limit and the currency of the borrowing country bears no interest when repurchasing. It is worth noting that the life of loan is related to whether there is connection with IMF. According to the agreement, the life of loan for the connected part is 1 year, with twice extension periods; the life of loan for the unconnected part is 6 months, with three times of extension periods.

The member countries need liquidity assistance must apply to the Standing Committee for capital assistance instrument type and expected amount and the Standing Committee decides to whether to approval the application. After the application is approved, the central banks of member countries negotiate about the specific transaction date and swap period. BCRA has strict requirements for member countries to apply for swap activation conditions. The member country must have no debt to other member countries and other bilateral or multilateral financial institutions and commit that the loan within the agreement has no same payment sequence with other direct, unguaranteed and non-subordinate foreign debt of the applicant and member countries. The member country should submit an application to the Council if it requests to cease contribution due to economic issues or other emergencies. The member country which breaks the contribution obligations will confront the punishment of power cancellation within BCRA (BRICS, 2014).

（II）Prospect and Suggestions

Signing of BCRA is important efforts to strengthen the global financial safety network and a latest beneficial try in the South-South cooperation field. If it can be successfully operated, it can have certain positive significance for promoting the reform of global financial governance structure.

However, it should be noted that the cooperation foundation and specific agreement design have some aspects to be improved. The above-mentioned relevant European and Asian experience has important referential significance for successfully launching and continuously improving the BRICs contingent reserve arrangement.

1. Strengthen mutual economic and commercial intercourse and fortify foundation of the contingent reserve arrangement.

The relevant theoretical study shows that the integration of economies of all countries in the region and consistency of economic and policy coordination are foundation of the regional financial cooperation and key for ti to achieve success. The relative success of the financial cooperation in the Eurozone and insufficient achievements in the financial cooperation in Asian countries reflect the correctness of this economic logic to certain extent. The BRICs contingent reserve arrangement is the financial cooperation between the countries which have similar economic development stage and some common characteristics. Strictly speaking, it does not fall into the category of regional financial cooperation. However, the above-mentioned principle is undoubtedly applicable to this arrangement, because the interest relevance is the premise for any cooperation. In BRICs, only the high interdependence is achieved in the fields such as economy, trade, investment, the financial instability or turbulence of any country will attract the attention and focus of other member countries and they will have the will to launch BCRA.

However, the data show that the economic and commercial intercourse among BRICs is now very limited and their interdependence is much lower than that in EU and “10+3”. As shown in Table 6, in 2014, the value of trade (in order to avoid repetitive statistics, value of exports plus total measured amount) in EU accounts for 64.75% of the value of foreign trade. This proportion is 19.19% in “10+3” and only 5.54% in BRICs.

Table 6 Proportions of Total Value of Internal Trade of EU, ASEAN+3 and BRICs of Their Total Value of Foreign Trade

Year	EU	ASEAN+3	BRICs
2000	65.26%	19.28%	2.21%
2001	65.28%	19.40%	2.82%
2002	65.98%	19.99%	2.82%
2003	67.00%	20.53%	3.01%
2004	66.58%	20.64%	3.28%
2005	65.23%	20.46%	3.52%
2006	65.56%	19.93%	3.74%
2007	66.10%	19.62%	4.30%
2008	64.87%	19.45%	4.90%
2009	64.94%	19.75%	5.12%
2010	65.13%	20.04%	5.31%

2011	64.51%	19.71%	5.78%
2012	63.40%	19.47%	5.82%
2013	63.78%	18.96%	5.61%
2014	64.75%	19.19%	5.54%

Data source: IMF Database:Direction of Trade Statistics (June 2015)

Of course, in the past over decade, the value of trade among BRICs has always had a rise trend and its proportion of the total value of foreign trade of BRICs has increased to 5.54% in 2014 from 2.21% in 2000. It is worth noting that the value of trade of China with other BRICs had faster rise during this period. In 2014, the value of trade of China with other BRICs of its total value of foreign trade exceeded the corresponding proportions of the value of trade of China with Japan and China with South Korea (see Table 7). Structurally, the goods of China exported to other four countries mainly include various finished products such as electrical equipment, machinery etc. and the imported commodities mainly include those of the resource type such as minerals, timber etc. which better reflects the trade principle of advantage complementary to each other (Lu Feng, Li Yuanfang and Yang Yewei, 2011).

Table 7 Proportions of Value of Trade of China with Other BRICs, ASEAN etc. of Total Value of Its Foreign Trade

Year	Other BRICs	ASEAN	Japan	South Korea	USA	EU
2000	3.33%	8.33%	17.53%	7.27%	15.71%	15.18%
2001	3.96%	8.19%	17.22%	7.04%	15.80%	15.93%
2002	3.85%	8.82%	16.42%	7.10%	15.67%	14.96%
2003	4.14%	9.19%	15.69%	7.43%	14.87%	15.78%
2004	4.59%	9.17%	14.53%	7.79%	14.72%	15.53%
2005	4.91%	9.17%	12.97%	7.87%	14.93%	15.48%
2006	5.03%	9.14%	11.79%	7.63%	14.95%	15.99%
2007	6.00%	9.32%	10.85%	7.37%	13.94%	16.47%
2008	6.83%	9.03%	10.43%	7.27%	13.06%	16.71%
2009	6.37%	9.64%	10.38%	7.08%	13.56%	16.57%
2010	6.79%	9.84%	9.98%	6.96%	12.97%	16.19%
2011	7.74%	9.95%	9.39%	6.72%	12.20%	15.63%
2012	7.76%	10.33%	8.51%	6.57%	12.44%	14.18%
2013	7.44%	10.64%	7.50%	6.59%	12.40%	13.44%
2014	7.27%	11.14%	7.25%	6.75%	12.80%	14.28%

Data source: IMF Database:Direction of Trade Statistics (June 2015)

As a whole, the economic foundation of BCRA is still relatively weak although there is an active change trend. The probability of BCRA to be used will be insignificant if no further development will be conducted in some period in future.

2. Establish independent monitoring mechanism and launch core economic indicator convergence plan

As an intergovernmental crisis assistance mechanism, BCRA also confronts the conflict between the interest of contributing countries protection and use encourage as the similar assistance mechanism such as CMIM. On the one hand, in order to prevent the moral risk, ensure that the assistance capital is reasonably used and protect the interest of the contributing country, certain conditions must be added for the capital use; on the other hand, if these additional conditions are too strict or unrealistic, the probability of BCRA to be used will be very limited. At present, BCRA has no economic monitoring and policy dialogue mechanism and thus the practice to connect 70% of the loan capital scale with the IMF loan. Such connection will possibly weaken the borrowing will of the crisis country, which finally results that BCRA perform practically no function. CMI and CMIM have never been used and one important reason is that the withdrawal of most loans is required to connect with the IMF conditions. After a period, if BRICs can establish their own monitoring and policy coordination mechanism, the proportion to connect with the loan conditions of IMF can be gradually reduced, even completely canceled.

In the long run, as ASEAN+3 establish an AMRO for CMIM, BRICs shouldestablish their own AMRO for successful operation of BCRA. This mechanism can play its role by setting up an independent execution agency. According to the provisions, this agency is entitled to monitor the economic operation status of the member countries, implementation of the macroeconomic policy and capital application after the currency swap is launched. In order to guarantee the realization of this monitoring objective, the governments of different countries should timely submit various economic operation and analysis reports according to the uniform rules and format for mutual effective information sharing and exchange. This agency will propose evaluation for the current policy situation of the relevant countries, including proposing the reform suggestions for the economic policies of the country which plans to apply for liquidity support or directly add certain proviso for the loan of the recipient country. Of course, this agency should also have a good information feedback mechanism, i.e. accept the appeal of the relevant countries for the called “unfair” policy evaluation.

In order to strengthen the financial stability and policy consistency in BRICs and set up threshold conditions for joining of new members, BRICs can launch a core economic index convergence program when it is right time in future by referring to the relevant experience in the monetary and financial cooperation of EU countries. The specific indexes can include rate of inflation, interest rate, financial deficit, proportion of public debt of GDP etc. Meanwhile, the exchange rates between countries should be maintained relatively stable by seeking for a certain mechanism when being allowed by various economic conditions.

3. Strive to strengthen mutual political trust and cooperation among BRICs

Barry Eichengreen, a famous American economist (2014) wrote an article to analyze the prospect of BCRA and he pointed out his optimistic opinion. His main basis was that there is no sufficient mutual political trust among BRICs. According to the provisions of BCRA Treaty, China has 39.95% right to vote, accounting for a relative majority. Brazil, Russia and India have 18.1% right to vote, while South Africa has 5.75% right to vote. According to the provisions, the important decision of BCRA should be voted by the Standing Committee in the plurality rule. According to the current distribution of the right to vote, China can lead the decision direction no matter with any country it cooperates, while other four countries can veto the opinion of China. Therefore, the ideal decision efficiency can be obtained only BRICs keep high political trust, especially during the making process of the significant decision.

In fact, it is almost impossible to for an economic monitoring and policy dialogue mechanism complying with the characteristics of BRICs, especially setting and implementation of the loan conditions as well as economic convergence program which should be established step by step in the long run, if there is no highly mutual political trust and consistency of policy coordination among BRICs. BRICs should continue to enhance communications through various levels and channels including establishment of a multilateral and bilateral economic and strategic dialogue mechanism, and participation of unofficial scholars to form a “Second track” communication mechanism, etc. Continuously promoting communication and dialogue and fully understand of the strategic significance of strengthening cooperation is essential for enhancing BRICs mutual political trust effectively, thereby promoting the implementation of various cooperation frameworks including BRCA.

4. Actively promote institutionalization of BCRA and establish the status of an international legal body.

According to provisions of Article 19 of BCRA Treaty, BCRA is a multilateral currency swap framework which has no independent status of an international legal body in the current stage and thus it has no right to sign the agreement, institute legal proceedings or to be accused. Looking forward to the future, BCRA should transit to the international organization direction with an independent status of an international legal body step by step required by financing channel widening, operation efficiency enhancement, cooperation with other international institutions etc.

First, along with the global economic aggregate and continuous expansion of financial market scale, the impacts of the global financial turbulence in future may be much fiercer, which will have higher requirements for various liquidity assistance arrangements to respond to such impacts.

Without independent status of an international legal person, BCRA cannot finance through borrowing money from member countries or issuing bonds in the international market etc. as the international organizations such as IMF, it can only depend on the amount of contribution committed by the member countries, which will obviously limit its assistance capacity and its flexibility. Second, when the member country breaks the payment obligation under the arrangement of BCRA, BCRA cannot institute legal proceedings in its own name because it has no independent status of an international legal person. The resolution of the breach can be achieved only through the complex and time-consuming multilateral negotiation among different member countries, which will severely impact the operation efficiency of BCRA. Finally, to respond to the global significant impacts requires cooperation of several assistance mechanisms. Without independent status of an international legal person, BCRA will confront certain difficulties when directly cooperating with other international institutions, impacting its assistance effects. To sum up, although the contingent reserve arrangement has no independent status of an international legal person, it is necessary for BCRA to transit to the international organization direction with an independent status of an international legal person step by step required by financing channel widening, operation efficiency enhancement, cooperation with other international institutions etc.

5. Actively promote the use of national currencies of BRICS, especially the use of RMB in currency swaps

At present, according to the agreement or provisions of Treaty, the currency swap under the CMIM and BCRA frameworks is mainly swap between the domestic currency and US dollar, which means that the borrowing country will undertake all risks of dollar exchange rate fluctuation. However, if member countries within such kinds of financial cooperation framework can sign currency swap agreements fully using their own currencies, they may largely get rid of the dependence on the US dollar and then greatly reduce the foreign exchange risks. In fact, currency swap with national currencies will also providemore possibilities to launch higher levels of monetary cooperation.

In addition, it should be helpful if member countries include basket currency, such as SDRs, in currency swap agreement.As what Aizenman et al (2010) pointed out, one country can select to provide a package currency when providing the liquidity support as most countries all over the world select several currencies as foreign exchange reserve. There is a reason to believe that under the BCRA framework, currency swaps are not only for the major international currencies such as the dollar, national currencies of BRICs or basket currencies can also be a part of it.

Since 2009, the international development of RMB has been very quick. As of the end of 2014, the RMB value has been 6,400 billion at 25% RMB settlement in the cross-border trade of China;

the RMB deposit in the offshore financial market such as Hong Kong etc. has exceeded 2,000 billion and the annual scale of dim sum bonds issuance denominated in RMB has exceeded 250 billion in 2014; its ranking as an international payment currency in the SWIFT system has risen to 5 all over the world; in addition, People's Bank of China has signed the RMB swap agreements of about RMB 4,000billion with more than 20 countries (Research Department of Bank of China Hong Kong (2015).

RMB internationalization is helpful not onlyto China's foreign economic and trade development, but also to the reform of global currency system (Zhang, 2014). For BRICs and countries which have wide economic and commercial contact with China, RMB used as the pricing, settlement and reserve currency will be helpful for reducing the dependence on dollar and exchange rate risk. If it can become the basket currency of SDRs in 2015 as scheduled, RMB should undoubtedly play more important role and be more often used in the BCRA.

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