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A promise largely unfulfilled

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NEVER MIND that the Asia-Pacific Economic Cooperation (Apec) summit failed to achieve anything substantial. As diplomacy prevailed, the meeting did come out with the second best options available for the 21-member economies.

In the run-up to Apec's Kuala Lumpur Summit, expectations had run high that the meeting could initiate a plan to regulate and enhance transparency in the speculative capital flows of international currency markets. The KL Summit was also poised to launch the ambitious trade liberalisation programme in nine crucial sectors within the Apec economies.

But nothing substantial that could be put into practice came out of the KL Summit in both these agendas, at least not in the short term. Apec's trade agenda to liberalise the nine trade sectors did not even make it to the leaders summit as it was stopped in its tracks during the trade ministers meeting. Instead what emerged was the second best option, which was to discuss the matter at a World Trade Organisation meet. (See accompanying story.)

As for the regulation of currency traders and transparency in international capital flows, the matter was referred to the G-22 forum which is composed of developed and developing nations. This was also the second best option available in light of glaring differences of opinion among Apec member economies on the matter.

Some people feel the reason why the KL Summit had to contend with second best options was that the Apec member countries shared little common ground and had differing priorities. 'Perhaps the little common ground between member economies reduced the Apec process and elicited its trivial responses. The KL summit does not suggest the leaders' seriousness in overcoming issues that societies affected by the financial crisis were grappling with,' says Professor Rajah Rasiah of Universiti Kebangsaan Malaysia. 'The proposed East Asia Economic Caucus (EAEC) would have been a better platform as there are more common grounds for the members.

'And to make matters worse, the summit was over-shadowed by political overtures,' he says, in apparent reference to the controversial statement made by American vice-president Al Gore at a dinner hosted by the Apec Business Advisory Council (ABAC). Gore, in his address, called for democratic reforms in Asian countries affected by the financial crisis and implied his support for the Reformasi Movement. Gore's remarks met with vehement protest from individuals, corporate figures and political parties in Malaysia and over-shadowed the leaders summit.

Professor Rajah's views on little common interest between Apec member economies are echoed by Professor Michael Leigh of Universiti Malaysia Sarawak. 'It was the meeting with, perhaps, the lowest common denominator. It did not push boundaries at all,' says Professor Leigh. 'Although there were resolutions to promote free trade, there was no push for their practise.' Professor Rajah says he feels Apec member economies were on the platform to perpetuate the interest of their own economies and of themselves.

Even the agenda on the financial crisis (which has affected more than half the Apec members and could threaten the actual exchange of goods and services) did not get a coherent response.

Prior to the Apec summit, Prime Minister Datuk Seri Dr Mahathir Mohamad

had suggested that it was the appropriate forum to get the ball rolling on a new financial architecture. But on the eve of the leaders summit, South Korean President Kim Dae-jung and Australian Prime Minister John Howard said during a session with leaders at the Apec Business Summit that it would be difficult to supervise the international flows of capital.

'It is not an easy task as it is difficult to draw a line between funds meant for investment and speculative activities,' Kim said in response to a question posed by a delegate at the session. Howard expressed his concern and sympathy for the economies affected by the financial crisis but did not disguise his scepticism of plans to regulate the flows in the international capital markets. 'Any proposed plan can go a certain distance but after that it will run foul and impede the development of free markets,' he said.

Although the overtures for a new financial architecture ran aground at the KL Summit, one consolation was that the leaders agreed to call for a review of the practices of rating agencies given the impact these agencies have on countries. But how this will be done remains to be seen as rating agencies are private bodies.

The leaders will also ask their finance ministers to work on proposals to promote capital flows and economic recovery in the region through private and public sector collaborative partnerships.

To this extent, among the more significant and positive outcomes of the KL Summit were commitments from better off Apec member economies, especially in Asia, to help distressed members. Before the KL Summit, several plans to inject liquidity into the affected economies, namely Indonesia, Malaysia, Thailand, South Korea and the Philippines, had been proposed by member economies.

The most prominent was the US\$ 30 billion Miyazawa Initiative mooted by Japan. Fifty per cent of the proposed sum would be given out in short term advances, with the balance earmarked for long term aid. This is Japan's direct bilateral aid to the affected economies.

Not to be outdone, the United States (US) also got into the act although in reality it was a poor effort. During the summit Gore announced that Japan, jointly with the US, would provide US\$ 10 billion in multilateral aid to the affected economies. The US is to provide US\$5 billion for the plan called the Asian Growth Recovery Programme. Japan is to provide US\$3 billion and the rest would come from the Asian Development Bank and World Bank.

But is this enough to help the affected economies?

A Japanese official explains that the US-Japan effort could bring in more funds. 'The joint Japan-US package is a multilateral aid. This means that other better off economies are welcome to joint this effort with contributions to increase the amount available for disposal,' says Sadaaki Numata, the spokesperson for Japanese Prime Minister Keizo Obuchi.

'This is different from the Miyazawa Initiative which is bilateral aid. The Japanese aid is also flexible and is not unilateral in identifying where the funds should go. It is a two-way process,' he says.

Taiwan also offered an aid package to affected countries but it was not included in the Leaders Declaration. Sources say this is largely due to political differences between Taiwan and China. Taiwan, in an initiative largely promulgated by the the country's chapter of ABAC, proposed a Collateralised Bond Obligation (CBO) to inject liquidity in the region. This method, says Nelson Chang, an ABAC member from Taiwan, is perhaps the most cost effective and sustained exercise of raising funds and adding liquidity in the region. Although not in the Leaders Declaration, Malaysia will take the lead in coordinating the CBO which will require sovereign guarantees from the better off countries in the region.

Taiwan has announced that it will contribute US\$ 1 billion to the CBO. Besides that, Taiwan is also offering another US\$ 1 billion to Malaysia as advance payment for liquified natural gas, and has set up a US\$ 300 million entity to invest in specific industries in Southeast Asia. Among all the plans, the Miyazawa Initiative looks the best as it is a form of direct aid, involves no guarantees and will come on stream by April next year. The CBO involves guarantees from better off economies in the region like Singapore and will take some time to take off. As for America's Asian Growth Recovery Programme, not much is known.

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