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APEC calls for monetary reform

WHAT was first expressed by Prime Minister, Datuk Seri Dr Mahathir Mohamad and latter echoed by other leaders and economists, has finally gained endorsement by a major international grouping. What caused the Asian financial and economic crises that impoverished many economies in the region and, which threaten many other countries, calls for international attention and deliberation, especially by the rich and developed nations.

Finally it gained the attention of the Asia-Pacific Economic Co-operation forum. After the end of a two-day Apec summit, the 21 gathered leaders issued a communique yesterday that called for urgent reform of the international financial system and the monitoring of short-term capital flows. The declaration effectively endorsed a report by financial officials who met earlier this month that proposed improved supervision of the financial system. The summit also urged a review of the practices of international rating agencies whose changes in assessments dramatically affect the ability of countries and companies to raise loans in the international capital market.

The Apec leaders also want development institutions to be intermediaries to promote private capital flows. They also call for the creation of a working group to study investment banks and and to impose transparency among hedge funds to ensure sustainable capital flows. They saythat an international task force must be established along with the private sector to deal with debt problems.

Clearly then the Apec declaration is testimony of the leaders' cognisance of the causes of and the problems arising from the Asian crisis. It might not resolve all the problems overnight, indeed even over the next few years. At least Apec has lived up to its basic role of a consultative forum to deliberate economic issues and concerns of member countries.

Apec has recognised that all is not right with the current international financial architecture that tolerates free and rapid capital flows. Which is why it has called for several mechanisms to monitor and regulate the movement of capital flows. The measures Apec desires to be put into place are initiatives that hopefully would result in orderly movement of capital and orderly flow of financial aid to countries in need.

Malaysia would be content with the package. Significantly, it contains a review of the business practices of international rating agencies. These companies persistently add to the problems of ravished economies by downgrading the sovereign and corporate debt ratings. These arbitrary assessments make the borrowings of the ailing countries more expensive, just when their economies are beginning to turn around.

In the final analysis however, the various mechanisms and measures called for by the Apec leaders might remain nothing more than a mere declaration if they are not put into place. It takes more than Apec to institute changes to the international financial architecture. Perhaps the better forum would be the G22 which brings together the richest of the rich nations as well as 15 developing economies. An endorsement by the G22 might just see the implementation of yesterday's Apec declaration. If the measures, at least some of them are not implemented, then Apec would continue to function as nothing more than a talk-shop and the leaders' summit little more than a great photo opportunity.

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