

22/11/1998

Apec efforts on trade, financial measures are pie in the sky

Shaik Osman Majid

THE 10th Asia Pacific Economic Co-operation round of meetings that ended in Kuala Lumpur last week proved that the grouping still functions within the parameters of its original format: a consultative forum to discuss economic issues affecting member economies. Nothing more, nothing less.

The latest forum also made clear and obvious what Apec could realistically achieve, and what it could not.

For one, the meeting underscored the fact that Apec is a regional grouping. Such a grouping cannot possibly arrive at trade and financial measures or solutions for the simple reason that both are major issues which affect countries beyond the boundaries of Apec.

The limitations are borne out by the outcome of the deliberations of the senior officials' and ministerial meetings as well as the leaders' summit.

At the end of the ministerial meeting on Nov 16, Apec decided to refer the early voluntary sectoral liberalisation scheme covering nine sectors to the World Trade Organisation. The leaders at the end of their summit in Cyberjaya on Nov 18 issued a declaration calling for urgent reform of the international financial architecture which was best discussed at a larger forum, the G22 which comprises seven very rich economies and 15 of the more advanced developing economies.

The two issues are the most significant ever to be discussed at the annual forum in its relatively brief existence. This is evident from a historical analysis of past Apec meetings.

When Apec was instituted in 1989, its stated objective was to be nothing more than a consultative forum to discuss unimpeded trade among member countries.

As a consultative forum the grouping achieved precious little in the first eight years. Until last year when Apec met in Vancouver.

Prior to the 9th Apec forum, the Telecommunications Ministers hammered out a mutual recognition agreement to allow unimpeded flow of telecommunications equipment within member countries.

That agreement gave impetus to the senior officials' and ministerial meetings to cobble together the EVSL scheme covering the telecommunications sector and eight others. The leaders' summit endorsed it for implementation in 1999.

The EVSL scheme has two inherent weaknesses.

First, by definition it was a voluntary scheme, giving the option of implementation to each of the member economies. Chile and Mexico declined to participate in the scheme when it was adopted. And it has come to pass that Japan is not willing to bring down its tariffs on forestry and fish products.

Second, trade barriers cannot easily be removed by countries within a consultative grouping. That measure would render Apec a trade bloc, an undesirable consequence in a world that is moving irrevocably towards globalisation.

Moreover, the proposal to remove trade barriers in nine sectors could not realistically garner the consent of the world's largest economy, the US. As it transpired in Kuala Lumpur, that country would prefer to have the backing of the European Union before it decided on the removal of any tariff.

So it has finally dawned on the more ambitious of the member economies, after nine years, that members can only discuss trade issues. Any

consensus on trade initiatives cannot be implemented within the grouping. For the move would trigger repercussions on trade between the rest of the world and Apec economies.

For this reason, Apec ministers have referred the EVSL scheme to the very much larger forum of the 172-member WTO. This decision is a tacit admission of the limitation of Apec.

The same admission can be drawn from the fact the Apec leaders referred the matter of the review and reform of the international financial architecture to the more influential G22.

That referral is also acknowledgement that even though Apec has within its membership three of the 10 biggest economies in the world - the US, Japan and Canada - the grouping cannot institute financial reforms on its own. But would the G22 be able to come up with urgent reforms?

The answer is 'no'. So also the WTO would not be able to deliberate and arrive at a consensus to implement the EVSL scheme.

The reasons are not complex. For one, the WTO is an unwieldy body comprising the very rich and the poorest of the poor nations. The former have their own agenda to sustain their economies. The latter are debt burdened and have different priorities.

This conflict of aspirations does not, and has not led to any consensus on the total removal of tariffs. The predecessor of the WTO, the General Agreement on Tariffs and Trade came into operation in January 1948. Through numerous rounds of negotiations, Gatt has had a measure of success in making member countries reduce their tariffs on imports. But it was not total.

The WTO, which succeeded Gatt in 1996, faces the heady and enormous task of cajoling countries developing at differing phases to an international agreement, including on the EVSL scheme.

A similar inference can be drawn of the fate of the Apec leaders' call for reform of the international financial system. At best, as Prime Minister Datuk Seri Dr Mahathir Mohamad said, it would take years. At worst, it might not materialise.

The crux of the issue is the free flow of short-term capital of hedge fund managers. The manipulations of these managers devalued many Asian currencies, battering bourses, weakening economies and reducing the real income of the populace.

That has been conceded by all the leaders of Apec. They have called for greater transparency in the flow of short-term capital. The question is whether this can be implemented through the deliberations of the G22.

Hedge funds are American; almost all are based offshore and beyond the scrutiny of regulators and the taxman. Their investors are wealthy Americans as well as foreigners, each of whom deposit at least US\$375,000 (RM1.4 million). In the case of the almost bankrupt Long-Term Capital Management fund, US\$1 million.

Hedge funds are able to trade in huge amounts because they have access to vast sums, raised through heavy leverage, that is borrowings from big banks. When they fail, they are bailed out by their main lenders, major commercial and investment banks as in the case of LTCM where 14 financial institutions provided US\$4.7 billion in fresh capital. A move that had the blessing of the New York Federal Reserve.

Given this development, it is hard to believe that the US will implement measures - endorsed either in Apec or even in the G22 forum - to ensure transparency in the transactions of hedge funds.

Clearly then the prognosis on the fate of the implementation of the EVSL scheme and the reform of the international financial architecture is that they will be nothing but pie in the sky. In the next few years, at least.

If these are the consequences of the deliberations of Apec, the question

can be asked: whether it is still a relevant grouping? The sober answer will be `yes' over the next few years and `no', after that.

Yes, because it can and will still function as a consultative forum to discuss economic issues that affect members. No, because whatever initiatives its members arrive at cannot really be implemented. Trade and financial issues are not regional; they are global.

That is the limitation Apec members have to accept and live with. And when members become increasingly cognizant of this basic fact, Apec might one day become no more than a footnote in the economic history of the world.

(END)