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East Asian financial crisis gets top billing at Asem 2

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EAST Asia's financial crisis will be the main concern of the 26 participants of the Second Asia Europe Meeting (Asem 2) in London this week, overshadowing human rights and other thorny political issues including membership.

London, which currently holds the European Union presidency, will propose at Asem 2 a separate statement on the Asian financial crisis, which will stress Europe's commitment to open trade in a "pledge of self-restraint" against protectionism in trade with Asia.

Britain believes that trade is one of the ways through which Asian countries can lift themselves self out of the present economic doldrums, its Minister of State for Foreign and Commonwealth Affairs Mr Derek Fatchett told visiting Asian journalists at a pre-Asem 2 briefing in London.

"As Asian products become cheaper as a result of the devaluation of the region's currencies, there is a fear that these products will flood the European market.

"But there will not be a protectionist response from Europe ... we will not stand still on open trade but shall go forward," Fatchett said.

Malaysia and the other Asian members of Asem support London's move to discuss the region's economic problems.

Foreign Minister Datuk Abdullah Ahmad Badawi, in an interview with Business Times, said the currency crisis that triggered the financial and economic difficulties confronting certain Asian countries not only have a global impact but were also partly brought about by weaknesses in the international monetary system, including in financial and capital markets.

"Malaysia would like to focus on financial and economic issues. Since Asem 2 will take place against the backdrop of the financial and economic difficulties plaguing the region, Malaysia expects the issue to be one of the main foci of the meeting," Abdullah said.

Malaysia's delegation to Asem 2 will be headed by Prime Minister Datuk Seri Dr Mahathir Mohamad.

Asem 2 is also expected to endorse an investment and trade blueprint which should induce a new wave of investments to Asian nations reeling from economic turmoil.

The investment promotion action plan (Ipap) has been in the pipeline for about two years. It was concluded in Luxembourg in July last year during a meeting between representatives of Asem.

Asem partners believe that the Ipap is the first of many tangible initiatives arising from the strengthening process of dialogue and cooperation between Asia and Europe.

One part of the plan focuses on investment promotion, including exchanging information via the Internet and intensifying business-to-business exchange programmes.

A second part aims to foster the investment environment by improving the policy and regulatory frameworks in areas of common interest and of relevance to business. This would create high-level dialogue on key investment issues.

Fatchett reiterates London's continued engagement in Asia, saying that it will show that it has continued confidence in the economies.

"Less than a year ago, Europe was talking about the tiger economies and that we should learn from them. I do not believe that the roaring tigers

of 1997 have suddenly become the tame pussycats of 1998.

"We acknowledge that there are adjustments and structural changes to be made but the reality is that the economies in the region have long-term strengths and that they will be our long-term trading partners," he said.

The EU's interests in Asia are underlined by trade figures showing that member countries' exports to the region totalled US\$123 billion (US\$1 = RM3.59) in 1996 compared with US\$114 billion exported by the US.

European banks have an estimated loan exposure of US\$350 billion in the region, greater than US and Japanese banks' exposure combined.

Fatchett was in South-East Asia - Malaysia, Indonesia, Thailand and Singapore - in the first week of March as the personal emissary of British Prime Minister Tony Blair to inform the governments in the region that Europe's top priorities under the British presidency is to help bring back stability and confidence to the Asian financial markets.

"The message I brought back from Asia was that some countries were prepared to face the problem head on and take very difficult decisions.

"As a result, real progress has been made in tackling a problem that affects us all. I was able to report to the European Union foreign ministers at their informal meeting in Edinburgh on March 13 that in Thailand and Malaysia, there has been significant progress.

"With both countries, I believe, light can be seen at the end of the tunnel," he said, adding that Singapore's economy remains basically strong with high levels of confidence.

Fatchett said Indonesia, however, is a different story. "When I met President Suharto, I urged him on behalf of the EU to comply with the IMF programme. I said that it was both in Indonesia's best interests, as well as the region's.

"Our firm view is that for Indonesia, the IMF programme is the road leading somewhere and one that it has to take."

There is, he warned, a danger of a second wave of lack of confidence if Indonesia does not fall in with the IMF programme.

"Asia could be hit by a second wave of instability if Indonesia refuses to comply with the terms of an IMF package."

At the London meeting, Europe is also expected to seek endorsement on the Asem Trust Fund, a fund initiated by the UK to assess the impact of the Asian financial crisis on the region's financial sector and the poor.

British treasury deputy director (international finance), Mr David Peretz said it is expected to have an initial capital of up to US\$50 million. He expects the fund to start with no less than US\$25 million.

The 25 countries that make up the Asem will contribute to the fund. Britain has already pledged STG5 million (STG1 = RM6.06).

Peretz said the response from member countries to the trust fund has been positive. The European Union is also looking at ways to contribute to the fund.

The Asem Trust Fund has a two-pronged objective: financial sector restructuring and poverty impact assessment.

In terms of financial sector restructuring, it will finance studies to help raise the amount of European technical assistance for Asian countries.

This will cover banking, monitoring and supervision, corporate governance, company law (including bankruptcy), accounting standards and the development of economic intelligence.

It will also analyse the impact of Asia's financial difficulties on poor groups and the implications for public expenditure priorities, social action programmes (including safety net schemes), job generation, labour market reform and enterprises development.

In the aspect of technical assistance, the UK is working with the World

Bank to make available the necessary expertise.

"We may even have experts from within the Asem process helping countries in the forum which are hit by the economic crisis."

Peretz said under the Asem process, a European network of experts may be set up especially in the areas of supervisory, accounting and privatization.

He said one of the lessons which can be learnt from the Asian financial crisis is to build up the respective countries' domestic bond market. Countries which have strong domestic bonds markets tend to do better than those which do not have one in place.

"This is where technical assistance can come in. But first, we have to get the infrastructure right. In this instance, governments can help," he added.

Abdullah said Malaysia appreciates the British initiative to set up the Asem Trust Fund at the World Bank for use by the Special Financial Operations Unit to provide assistance to crisis and non-crisis Asem countries.

"While Malaysia views the British initiative to set up the Asem Trust Fund at the World Bank as a positive measure, it alone would not be sufficient to help in the recovery of economies concerned," he added.

Both Fatchett and Abdullah, however, said Asem 2 will not simply be about Asian financial turmoil.

While Abdullah said Asem 2 could also include discussions on the implications arising from the introduction of the Euro, strengthening of economic cooperation between the two regions and environmental disaster preparedness, Fatchett added that Europe is looking for results in areas that matter to the people.

These include the future of the children and young adults, their welfare and education; trade and business links, protection of the shared environment; and the cultural contacts.

Abdullah said the London meeting is also expected to adopt an Asia Europe Cooperation Framework which will spell out the principles and mechanism for long-term Asia-Europe cooperation in political and other areas.

"Malaysia hopes the Framework would provide direction for the future development of the Asem process," he said.

There will also be an European environmental initiative to help South-East Asia cope with environmental disasters.

British Foreign Minister Robin Cook announced the initiative in London on March 26.

He said forest fires, volcanic eruptions and phenomena such as El Nino had demonstrated the potential impact of such disasters. "We need to work together to prevent disasters from happening wherever we can, to minimise their impact when they do happen and to recover from them afterwards," he added.

During Asem 2, a business forum will also be held, which would bring together top business people from both regions and given them the opportunity of talking directly to their political leaders.

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