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Meeting for growth

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ALONG the bustling roads of Kuala Lumpur's Golden Triangle, banners reading 'Apec Means Business' hangs on lamp posts. The message on the banner has set the tone for the gathering of leaders of the Asia-Pacific Economic Cooperation member economies. Foremost in their minds will be the Asian financial crisis, which started more than a year ago in Thailand. Although the main thrust of Apec is to promote trade and investment liberalisation and facilitation among its member economies, this time the discussion will most certainly touch on the effects of the financial crisis. Of the 18 member economies - which will be increased to 21 after this year's meeting - more than half are affected by the crisis. Bearing in mind that trade issues take priority in Apec's deliberations, the organisation which is based on consensus, is a poor cousin compared to the International Monetary Fund (IMF) or World Bank on matters relating to financial crisis. This is because Apec has no large financial resources such as the IMF to directly help ailing economies. Moreover it would be a waste of resources to do that as it means duplicating the role of the IMF and the World Bank.

But then this does not mean Apec has no role in addressing issues related to the financial crisis. It has clout with the likes of the United States and Japan in the grouping which should be wielded to ensure the crisis does not recur. Also, Apec cannot afford to be a bystander as speculation in currency trading has hampered genuine trade of goods and services - thus threatening its relevance.

At the Apec Business Advisory Council (Abac) meeting in Taipei recently, it was revealed that the value of currency trading is 20 times more than the genuine trade of goods and services. Trade issues are important but it must be remembered that basic trade cannot be conducted in an orderly manner if the disruption caused by the currency traders is not reined in. Thus, in a move which does not surprise many, Abac - which is the high-level private sector link to the Apec leaders - called on the forum in Kuala Lumpur to consider some ground rules to regulate the activities of currency traders.

Prime Minister Datuk Seri Dr Mahathir Mohamad has also come out with some suggestions to regulate currency traders. Among them are licensing currency traders, restricting lending to funds managed by currency traders and circuit breakers on the maximum changes to the exchange rates per day. Dr Mahathir had said at a conference on the Asian crisis that if currency trading cannot be done away with, then it should be properly supervised and regulated.

'This is possible if the big economic powers are willing to co-operate to enact rules and to enforce them,' he said.

If the Apec leaders agree to regulate currency trading, it will mark the beginning of a new global financial architecture. And this will place Apec on a better standing than the IMF and World Bank.

Both these organisations had deliberated extensively on the financial crisis at their recent meeting in Washington but nothing substantial came out of it, except that the traditional IMF-medicine of tight monetary policy is not the proper prescription to cure the sick economies of Asia. Besides the call to regulate currency traders, Abac is also expected to propose to the Apec leaders to endorse a collateralised bond obligation (CBO), a mechanism to enhance the credit of government bonds of the

affected economies. This would enable the affected countries to raise some liquidity in international markets.

While the financial crisis is expected to hog the limelight, trade liberalisation is not likely to be set aside. At the last Apec meeting in Canada, the leaders earmarked 15 sectors for liberalisation under the early voluntary sectoral liberalisation (EVSL) programme. Nine of the sectors are to be liberalised as early as possible, preferably by next year.

The nine sectors are environmental goods and services, fish and fish products, medical equipment and instruments, telecommunications mutual recognition arrangement, energy, toys, gems and jewelry, chemicals and forest products.

The liberalisation of these sectors depends a lot on the deliberations between the member economies. For instance, Japan is said to be reluctant to open its fisheries sector much to the dismay of Australia, New Zealand and Canada. The Latin American members are set on securing across-the-board tariff cuts.

Apec members from Asia and Russia may not be too keen on the speedy implementation of the EVSL as they are not ready and they are still reeling from the effects of the financial crisis. They would seek some flexibility in implementing the EVSL.

However, Malaysia, as the host nation, is emphasising capacity building. Put simply, it is the preparation phase for the lesser developed economies for eventual liberalisation. In this context, Malaysia is pushing the 'ecotech' agenda - economic and technical cooperation and development. Ecotech does not merely confine to building any one particular industry. In essence ecotech outlines plans for the lesser developed members to develop their economy as a whole to ensure they are on a level playing field when liberalisation takes place.

To this extent, it was reported that Fred Bergstein, director of the Washington-based Institute for International Economics, has submitted to Dr Mahathir a 10-part report with recommendations keyed to the crisis. One specific ecotech proposal is to train people in the financial sector of the affected economies on risk management and supervision to ensure a better financial system. If the proposal is accepted, this will indirectly be one of Apec's contribution to help prevent a recurrence of the financial crisis.

Abac has also finalised a plan to enhance the ecotech agenda. At its meeting in Taipei in September, Abac finalised the framework and funding for the setting up the Partnership for Equitable Growth. PEG is a nucleus corporation which will act as a catalyst for the private sector of member economies to enhance their capabilities through joint projects.

The PEG committee under the stewardship of Tan Sri Francis Yeoh of Malaysia has announced its first project - the US\$ 5 billion Asian Gas Grid. The rationale for the project is that an efficient gas distribution system will not only attract investments in the region but also generate regional trade.

Yeoh had said investors from Apec and non-Apec economies had indicated interest in the project which will see the building of a gas pipeline from natural gas fields of Malaysia and Indonesia to major demand centres in China, Japan and South Korea.

Another ecotech initiative proposed by Abac is to address the Y2K problem faced by the lesser developed economies as it would severely reduce output. Abac feels that in a situation of prolonged recession, these shocks will compound the problems of the affected economies. The remedy for the Y2K problem is said to be the most expensive of the decade with experts estimating the cost of fixing computer systems to be

between US\$ 300 billion and US\$ 600 billion. This does not take into account the opportunity cost lost by business due to computer systems breakdown and litigation.

Thus it is clear that whilst the Apec summit in Kuala Lumpur will delve a lot on the financial crisis to help prevent a recurrence, the leaders will definitely not be short of trade issues.

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