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Moment of truth dawns for Apec

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EXPECTATIONS ran high at last November's Asia-Pacific Economic Cooperation summit in Vancouver, where leaders delved at length into the causes of and cure for the financial crisis sweeping across East Asia.

Many regional countries, ravaged by plummeting currencies, looked then to Apec to stop an economic meltdown.

Ten months later, critics charge that little had been done.

Apec, they claim, has policies aplenty, but few have been implemented.

Indeed, the contagion appears to be spreading: the currencies of other Apec members have increasingly come under speculative attack.

Apec sympathisers insist that member states, by virtue of their contribution to the International Monetary Fund, have indirectly aided countries like South Korea, Indonesia and Thailand.

Besides, they point out, Apec-related bodies are undertaking measures to instil confidence in the region.

Soon, Apec leaders would meet again, this time in Kuala Lumpur.

As Nov 17 draws near, hopes are soaring once more that Apec will introduce a "new international financial architecture" to limit the havoc wreaked by currency speculators.

Preparatory meetings for the summit suggest an Apec initiative to bring financial order to the region.

Among the staunch advocates of such a move are businessmen.

The Apec Business Advisory Council, for example, believes restoration of financial stability is the most critical priority and wants to see Apec establish a mechanism to tackle short-term currency fluctuations.

Abac chairperson Tan Sri Tajudin Ramli says the council presented several proposals to tackle the Asian financial crisis at recent Apec Finance and Trade Ministerial meetings.

"The proposals are aimed at finding solutions to several problems like restoring foreign investor confidence and addressing the liquidity squeeze."

Apec executive director Datuk Noor Adlan says the Kuala Lumpur summit will discuss the regional economic and financial crisis.

"As for the new financial landscape, I expect Apec to provide its inputs."

The International Trade and Industry Ministry's Abdul Razak Ramli, who is also chairperson of the Apec Senior Officials Meeting, predicts:

"This could be the year of action for Apec. People expect things from Apec leaders in the light of what is happening in East Asia."

Still, to what extent can Apec leaders solve the crisis?

After all, Apec last year left the task of handling the economic crisis to the IMF, saying it had neither the technical expertise nor resources to help.

But little has changed since the IMF stepped in more than a year ago.

The East Asian economies are still unable to restore stability to their currencies.

Speculators, backed by large funds, still call the shots.

Worse, the crisis has become infectious.

Even South Africa and Russia (the latter is one of three countries making their Apec debut in Kuala Lumpur) are seeing attacks on their currencies.

This affirms widespread belief that the IMF is not equipped to deal with

the volatility in the international capital markets, one of the causes of the East Asian economic debacle.

"Apec cannot afford to be a bystander anymore," says Dr Andrew Elek, an Apec expert at the Australian National University.

Professor Peter Petri of Brandies University in the US, concurs.

"Apec's grand agenda of trade and investment liberalisation should take a back seat.

"The financial and economic turmoil in East Asia should be addressed first.

"Trade liberalisation is important, but it is a long-term goal." THE call for Apec to act reflects the organisation's strength.

Apec is the most powerful forum for countries in the Asia Pacific region, due mainly to the involvement of the US, Japan and China.

In 1995, the 18-member countries generated a combined GDP of US\$16 trillion (RM67.2 trillion) and 44 per cent of world trade.

"However, all these credentials do not mean anything if nothing is done," says Prof Lepi Tarmidi of the University of Jakarta.

"Apec has not done anything substantial so far to alleviate the crisis.

"As an organisation in control of nearly half of world trade, it can be powerful if it wants to be."

Any Apec push for a new international financial architecture is likely to be a long process.

Unlike the European Union or other trade pacts, Apec does not bind its members by rules or regulations: all actions are based on consensus.

Thus, if any member disagrees to a proposal, it goes back to the drawing board.

"How soon Apec can act to resolve the financial and economic crisis is something else," says Petri.

"The organisation has some bureaucratic elements and the world has changed a lot since the Vancouver summit last year."

But Lepi contends that "the bureaucracies can be removed if the US and Japan set their hearts on having a new international financial architecture".

Observers note, however, that the US may be reluctant to endorse a new financial architecture plan as it is more committed to IMF initiatives than looking into the role played by currency speculators.

"All the while, the US and IMF have blamed victims for the economic turmoil," says Dr Richard Feinberg, the director of the Apec Study Centre at the University of California.

"But no attention is paid to the behaviour of capital markets and volatility of short-term funds.

"Apec, in a sense, has failed to deliver a more balanced debate on the crisis."

The US bias towards the IMF ties in with the reason for Apec's founding in 1989.

The organisation was established with the main objective of liberalising and facilitating trade and investment flows in the Asia-Pacific region.

Its progress, however, has been slow.

The IMF, in just a year, has outstripped it in opening up trade and financial systems in the region.

South Korea, for example, had in the past successfully limited the amount of foreign investments, particularly in the heavy industry and financial sector; today, its economy is open.

In Indonesia, trade cartels have been dismantled while in Thailand foreigners are allowed 100 per cent equity in all sectors.

"In short the IMF and US have used this crisis as an excuse to push wide open the doors of the ravaged economies," says Feinberg.

"The progress made by the IMF in opening up trade and financial services is faster than Apec's."

Prof Rajah Rasiah of the Apec Study Centre at Universiti Kebangsaan Malaysia notes that the US is also "not likely to speed up any action" to stop currency manipulations as the Asian crisis has scarcely affected it.

Still, Apec has clout and in the past has shown that it can muster up enough resolve to start the ball rolling on new initiatives.

In 1996 in Manila, Apec leaders formulated the Information Technology Agreement, which basically calls for breaking down trade barriers pertaining to information technology and communication equipment.

Apec has continued to develop regional capital markets, raise the quality of training programmes for banking supervisors and securities regulators, and support members' efforts to develop or reform their pension systems, among other programmes.

"If Apec can come to a consensus," says Noor Adlan, "with its economic strength, it can serve to develop a critical mass on agreements accepted by its leaders".

Says Petri, "Apec can bring confidence to the region by giving signals to world markets.

"In Vancouver very little was done as the scale and complexity of the crisis then was unclear."

Last September during a World Bank-IMF conference in Hong Kong, Prime Minister Datuk Seri Dr Mahathir Mohamad floated the idea of regulating currency traders, only to see it dismissed as virtually impossible.

But now the concept of transparency and accountability is gaining force.

The fact that many Southeast Asian currencies are inclined to the US dollar is widely believed to have contributed to the crisis.

As the US dollar went up, the currencies also appreciated - but to a level above their true values, causing a chance for manipulation by currency traders.

"One thing is for sure," says Petri.

"These economies cannot afford to have single currency pegs.

"The key point in creating a new international financial system is to work out one that gives some degree of flexibility but nevertheless discourages short-term speculation.

"One solution is to impose a tax on short-term capital flows."

Though Apec's attention at the Kuala Lumpur summit will focus on the economic crisis, its primary objective of promoting regional trade won't get short shrift.

"Talks on trade liberalisation will continue," says Noor Adlan.

"The leaders want to send signals that trade liberalisation is a long-term goal, while the economic and financial crisis is short-term.

"But whether something concrete can come out of the meeting is still too early to say."

If a plan for a new international financial architecture doesn't materialise, Apec's Asian members will be disappointed.

"The moment of truth will be November," says Dr Shafiq Sit Abdullah, Abac's executive director.

"Global solutions can be found. There are rules on just about everything, even information flows in cyberspace.

"Why not the international flow of money?"

"People transacting large amounts of money should be made known. Right now we do not know who is moving funds."

Petri is philosophical. "There are two faces to Apec.

"If nothing concrete takes place to address the crisis, then Apec will be a forum of communication only.

"But I am sure the leaders would like to see Apec do more than that."

Certainly, the ball is now at Apec's feet.  
\* This is an edited version of a feature story which appears in the Sept 1 issue of Malaysian Business.

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