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Poised to initiate change

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AS the Asia-Pacific Economic Cooperation (Apec) summit in Kuala Lumpur draws near, hopes are running high that it will put in motion plans for a 'new international financial architecture' that will limit the havoc wreaked by currency market manipulations.

Many countries, ravaged by plummeting currencies, are looking to Apec to stop the meltdown of their economies. Expectations had run high at last November's Apec meeting in Vancouver, Canada, where leaders had delved at length into the causes of and cure for the financial and economic crises sweeping across Asia.

But now, 10 months later, critics charge that little has been done. Apec, they claim, has policies aplenty, but few implemented. Indeed, the contagion appears to be spreading: the currencies of other Apec members like China have increasingly come under speculative attack.

Apec sympathisers insist that member states, by virtue of their contribution to the International Monetary Fund (IMF), 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 (see accompanying story).

While the agenda for this year's two-day summit in Kuala Lumpur, starting Nov 17, has not yet been finalised, preparatory meetings 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 (Abac), for example, holds that the restoration of financial stability in the region is the most critical of Apec priorities at the moment. Apec, it maintains, needs to establish a mechanism to solve the problem of short-term currency fluctuations.

Abac chairperson Tan Sri Tajudin Ramli says the council presented several proposals to tackle the Asian financial crisis at the recent Apec Finance and Trade Ministerial meetings. 'The proposals,' he says, 'are aimed at finding solutions to several problems like restoring investors' confidence, and addressing the tight liquidity and credit squeeze on business.'

'Equal emphasis will also be given to skills development and corresponding physical infrastructure. Funds coming in will be of no use if there are no compatible skills and infrastructure available to nurture a higher level of technological upgrade.'

'For instance, some developed Apec economies could help finance training programmes in the lesser economies to build up skills there.'

Apec executive director Datuk Noor Adlan says the Kuala Lumpur summit will discuss the regional economic and financial crisis. 'I would be surprised if the leaders do not visit the crisis again,' he says. 'As for the new financial landscape, I would expect Apec to provide its inputs. It will make its views known on the matter.'

The International Trade and Industry Ministry's Abdul Razak Ramli, who is also chairperson of the Apec Senior Officials Meeting, projects confidence. 'This could be the year of action for Apec,' he says. 'People expect certain things from Apec leaders in the light of what is happening in East Asia.'

Still, to what extent can Apec leaders get things moving and solve the crisis? After all, Apec last year left the task of handling the economic crisis to the IMF, holding that it had neither the technical expertise nor

resources to help the ravaged economies. Moreover, says Noor Adlan, Apec did not want to duplicate the IMF or World Bank's role, as it would have been wasteful at best and caused competitive 'forum shopping' at worst. But little has changed since the IMF stepped in more than a year ago. The East Asian economies are still unable to bring stability to their currencies. Speculators, backed by large funds, still call the shots. Worse, the crisis seems to be infectious as even South Africa and Russia - the latter is one of three countries making its Apec debut in Kuala Lumpur - are experiencing 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, the United States, concurs. 'Apec's grand agenda of trade and investment liberalisation should take a back seat for now, as at this juncture the issue of the financial and economic turmoil in East Asia should be addressed first,' he says. '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 United States, Japan and China. In 1995, the 18-member countries generated a combined Gross Domestic Product of US\$16 trillion, accounting for 44 per cent of world trade.

'However, all these credentials do not mean anything if nothing is done,' says Professor Lepi Tarmidi of the University of Jakarta. 'Apec as a body has not done anything substantial so far to alleviate the East Asian crisis. As an organisation in control of nearly half the world trade, Apec 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. This means that if any member state 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.' The US and Japan are the world's largest and second-largest economies.

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

'All the while, the US and IMF have blamed victims of 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 which have caused severe shocks. Apec, in a sense, has failed to deliver a more balanced debate on the crisis.'

Undoubtedly, short-term private capital flows have wreaked havoc in Asian economies. In 1996, South Korea, Indonesia, Malaysia, Thailand and the Philippines enjoyed net private capital inflows of US\$93 billion. But last year there was a net outflow of US\$12.1 billion. This year a net outflow of US\$9.4 billion is expected from the five economies (see table).

The US preference towards the IMF is understandable. The IMF, in just a year, has outstripped Apec 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 to the ravaged economies,' says Feinberg. `The progress made by IMF in opening up trade and financial services is faster than Apec's.'

Professor 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. Non-Apec countries in Europe have also endorsed this agreement.

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 still unclear.'

Of the 21 leaders attending the Kuala Lumpur summit, at least 12 are from countries badly affected by the economic and financial turmoil. Last September during a World Bank-IMF conference in Hong Kong, Prime Minister Datuk Seri Dr Mahathir Mohamad floated the idea of regulating currency market manipulators, only to see it dismissed as virtually impossible. But now the concept of transparency and accountability as regards hedge funds is gaining ground.

Hong Kong, widely seen as a bastion and champion of free enterprise, recently abandoned its laissez-faire policy when the authorities were forced to intervene because of relentless attacks on its currency and stockmarket by speculators.

The fact that many Southeast Asian currencies were inclined to the US dollar is now widely believed to have contributed to the crisis. As the US dollar went up in value, the currencies also appreciated - to a level above their true values, causing a gap 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 tax on short-term capital flows.'

Another alternative, says Feinberg, is the Chilean approach. Its central bank retains for a year a certain percentage of funds flowing in without holding costs. Although this measure has shielded Chile's currency, it is said to have some distracting effect on foreign capital.

Countries could also opt to have, with the IMF's endorsement, a certain amount of short-term liabilities which their monetary authorities can support. `Countries can come up with a schedule to ensure that their

current account deficit is covered mostly by long-term lending and foreign investments rather than short-term funds,' says Feinberg. 'Countries need to have the necessary legal framework to control the flow of funds before liberalisation can take place.'

Though Apec's attention at the Kuala Lumpur summit is expected to be focused on the economic and financial crisis, its primary objective of promoting regional trade won't get short shrift. 'Talks on trade liberalisation will continue,' says Noor Adlan. 'I am sure the leaders want to send signals that trade liberalisation is a long-term goal of Apec while the economic and financial crisis is short-term difficulty. Deliberations on the new financial landscape could be one of the topics in the meeting. Whether something concrete can come out of the Apec 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 this November,' says Dr Shafiq Sit Abdullah, Abac's executive director. 'The leaders will respond and show clearly that, collectively, global solutions can be found for the current regional problems. 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 in the international markets should be made known. Right now we do not know who is moving the funds.'

Petri takes a philosophical stand. 'There are two faces to Apec,' he says. 'If nothing concrete takes place in addressing the crisis, then Apec will turn out to be a forum of communication only. But I am sure the leaders would like to see Apec do more than that.' Certainly, Apec now has the ball at its feet.