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Apec Yes to new banking standards (HL)

Zulkifli Othman in Auckland

AUCKLAND, Mon: Leaders of Pacific Rim economies today agreed to develop new international banking standards that will turn off the tap on cheap and freely available funds for speculative purposes.

The leaders emerged from the 11th Asia Pacific Economic Cooperation economic leaders' summit here with instructions to finance ministers to develop uniform banking standards that will limit funds to highly leveraged funds and currency traders.

Deputy Prime Minister Datuk Seri Abdullah Ahmad Badawi understated it today when he said that Malaysia derived "a certain sense of satisfaction" on the leaders' decision after the lukewarm reception for any sort of controls on these funds at the Kuala Lumpur summit last year.

"Malaysia has been at the forefront in the efforts to reform the international financial architecture, and I was happy to see that leaders of the Apec economies took the matter up spontaneously when the chair introduced the subject for discussions," he told reporters.

New Zealand Prime Minister Jenny Shipley, the chairman of this year's summit, said leaders agreed that highly leveraged funds must be more transparent and that strong financial systems are fundamental to achieving robust and open economies.

She told a press conference at the end of the Apec leaders retreat here that good banking standards would go a long way to strengthening domestic financial markets.

"We support ongoing efforts to improve crisis prevention and crisis resolution, and urge prompt action to improve transparency of highly leveraged institutions," the leaders said in their joint declaration. Shipley said the banking system, by borrowing or lending, had had a hand in the financial crisis and that work to address weaknesses would reinforce investor confidence in the region.

It was clear that Malaysia's position against destructive capital flows have gained wide support since Prime Minister Datuk Seri Mahathir Mohamad spoke up in a lone voice against speculators and highly leveraged funds two years ago.

And unexpectedly, support for Malaysia's cause came from the US yesterday when President Bill Clinton said that something must be done to curb speculative capital flows to prevent future financial crises.

Abdullah said the leaders' discussions were a step forward for Malaysia and the interest in the matter was "spontaneous".

They expressed concern regarding the activities of highly leveraged institutions and speculative currency traders which brought about economic crises in many Apec economies.

There was no hesitation in identifying the problem and that it could best be addressed by stemming the flow of cheap, massive funds from the banks to the speculators, he added.

"On the basis of the discussions, leaders agreed that finance ministers should be tasked to come out with a set of international standards of banking practice that will allow greater transparency and accountability among international banks, and thereby reducing high-risk lending especially for speculative purposes," the Deputy Prime Minister said.

The leaders today pledged to sustain the momentum of measures that have pulled Asia out of its financial crisis by pushing for the international financial system to be strengthened.

Abdullah said in the light of the Asian economic recovery that is under way, Apec has come to understand that measures like Malaysia's selective capital controls would remain a policy option as long as the international financial markets are prone to volatility.

He also said Malaysia is encouraged by Apec's strong emphasis on trade facilitation, and economic and technical cooperation that will narrow the gap between the richest and poorest members.

"In order for Apec to achieve its goal of creating a region of free and open trade, it must now concentrate on creating a conducive environment for the developing countries to catch up with the developed countries," he said.

The leaders instructed their ministers to give priority to trade facilitation next year and intensify efforts to eliminate associated non-tariff impediments to trade.

On the new round of global trade talks expected to be launched in Seattle in November, he said Malaysia hopes that developing countries will be given time and opportunity to study the proposals under the agenda. Apec economies agreed that the World Trade Organisation talks should be concluded in a single package and within three years.