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East Asia may lead the way

Saiful Azhar Abdullah in London

THE most important changes to the world's financial architecture is expected to come from East Asia, an economist said yesterday.

Writing in the July 15th edition of The Economist, Fred Bergsten, the director of the Institute for International Economics in Washington, said:

"When it comes to international finance, two bodies like to think they are in charge of the architecture: the G7 group of industrialised countries (G8, when Russia is included) and the International Monetary Fund.

"Not quite so. In the medium term, the changes are likely to come from new regional arrangements being fashioned in East Asia by Japan, South Korea and the 10 members of the Association of South East Asian Nations."

Bergsten also felt that East Asia would also be involved in introducing major changes in the world trading system.

"The most striking changes in the world trading system, especially in the short run, are not likely to flow from the World Trade Organisation or the proposed 'mega-regional' arrangements, such as a Free Trade Area of the Americas or an expanded European Union.

"Instead, they will probably come from the host of sub-regional trade agreements now being busily negotiated by Japan, South Korea, Singapore and other countries in East Asia," Bergsten said.

Virtually unnoticed by the rest of the world, he said, East Asian countries were getting together to make their own economic arrangements.

As a result, for the first time in history, the world is becoming a three-block configuration.

"Not only global economic relationships, but political ones too, will turn on the direction these new agreements take - and on how the United States, and others outside the region, decide to respond to them."

Bergsten also wrote that it was Prime Minister Datuk Seri Dr Mahathir Mohamad who led the early steps for a regional grouping in East Asia.

"It was (Dr) Mahathir Mohamad, the Prime Minister of Malaysia, who first proposed an East Asian Economic Group (EAEG) a decade ago.

"Nothing happened, partly because Dr Mahathir was under suspicion as a protectionist, but largely because the United States feared 'drawing a line down the middle of the Pacific'.

"America pushed instead, successfully, for relying on the Asia-Pacific Economic Co-operation forum (Apec). With little fanfare, however, Asia has now created the 'Asean+3' with precisely the same membership (Asean, China, Japan and South Korea) envisaged by Dr Mahathir.

"The group has held its own summits for three years in a row, has set up a 'vision group' to guide its work and holds regular meetings of its Finance Ministers," Bergsten said.

Structurally, at least, he said the Asean+3 was starting to look like the G7 and had become the most active regional grouping outside Europe and already the most sophisticated machinery than the North American Free-Trade Agreement (Nafta).

Bergsten said the initiatives taken by Asean+3 to tackle the region's financial problems included having a region-wide system of currency swaps to help them deal with future Asian crises, creation of a surveillance mechanism to try to anticipate and head off future crises using sophisticated early-warning indicators and the proposed Asian Monetary Fund (AMF).

He also gave reasons why Dr Mahathir's EAEG, Japan's AMF and the long-dormant Asian trading-group idea sprung back to life at the outset of the 21st century.

The East Asian financial crisis, failures of WTO and of Apec to make headway on trade liberalisation, positive inspiration provided by European intergration (especially the euro) and a broad disquiet with the behaviour of both the United States and the European Union were the reasons, Bergsten said.

He said the single greatest catalyst for the new East Asian regionalism was the financial crisis.

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