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The 1998 Asia Pacific Economic Cooperation Meeting: Opportunity for Relevance? by Jane Skanderup

At last year's APEC Leaders Meeting in Vancouver, many shuddered at President Bill Clinton's soundbite that the Asian financial crisis was only a "glitch in the road." His statement may have been calculated to soothe the markets (it didn't work); it didn't reveal the serious concern expressed behind closed doors on the worrisome events underfoot. Nonetheless, it sent the message that the region's most important economic organization was incapable of responding to a crisis that was befalling its own members. At this year's APEC Leaders Meeting, being held in Kuala Lumpur on November 17-18, APEC is challenged to adopt a vigorous set of timely and concrete actions to address the crisis.

APEC is important – if it didn't exist, we would have to reinvent it – but it has lost its inspiration, and is in serious danger of becoming an irrelevant player in international economic dynamics... and useless to members to boot. Ever since APEC leaders agreed at the 1994 Indonesia meeting to create a free trade and investment area in the region by the year 2020 – known as the Bogor Declaration – the 18 APEC members have been at loggerheads over the pace and scope of tariff reductions, as well as how binding commitments should be. The last three annual meetings have produced incremental, vague plans to tackle the all-important trade agenda.

At the KL meeting, we will finally have an agreement that concludes these initial efforts. All members, with the notable exception of Japan, have embraced a clear timetable for tariff reductions in nine agreed-upon sectors – the so-called Early Voluntary Sectoral Liberalization (EVSL) plan, which includes liberalization in fisheries, forestry, toys, telecommunications, medical equipment, chemicals, jewelry, energy, and environmental equipment by 2002 to 2005.

Japan alone is resisting liberalizing forestry and fisheries industries, threatening liberalization in these sectors region-wide. This is especially regrettable. It signals continued political weakness as the ruling party remains hostage to narrow rural interest groups which continue to block meaningful reform. Instead, Japan will hopefully bring details on its recent pledge to provide $30 billion in aid to the region, a welcome sum of money – but even this will not buy Japan freedom from criticism. Everyone remembers that Mexico's economic recovery in 1995 was made possible by the booming economy to the North – and Japan's singular challenge is to engineer a domestic demand-led recovery that would truly help advance a newly reformed Asia-Pacific economy.

The investment side of the Bogor Declaration will receive some attention, although the agreement being considered is a yawner: APEC economic ministers have reportedly developed a "menu" of some 70 investment liberalization measures which will then be up to members to voluntarily implement either one at a time or not at all. This is an initial attempt to deal with complicated issues, but if APEC is to regain its relevance, it must seriously negotiate a regional investment code which would harmonize foreign investment policies and bind members to high standards of treatment of foreign investment. With so much concern about the volatility of short-term capital flows, the clear remedy is to reconsider earlier policies that regulated long-term capital in the interest of limiting foreign ownership.

While the task may seem daunting, there is a political consensus emerging that foreign investment has a critical role to play in rebuilding economies to be globally competitive. Last month in Manila, the ASEAN economic ministers agreed to pursue a free investment area among members by 2010 and to outside investors by 2020. That is a long timetable, but was undertaken entirely on ASEAN's own initiative and is an important step forward. South Korea has undertaken sweeping reforms in its FDI regulations that go way beyond its IMF commitments, and President DJ Kim is committed to signing a bilateral investment treaty with the United States -- a complete reversal from previous administrations, demonstrating just how much political will can accomplish. Agreeing on a region-wide investment code would send a powerful message to the international investment community that APEC members are committed to recovery in partnership with foreign capital.

Other agreements that APEC will consider include proposing a surveillance system for institutional investments, which would monitor the vast amounts of money circling the globe such as through mutual and hedge funds. These proposals parallel a preliminary statement issued by the G-7 last week on their joint efforts to provide more concrete proposals for international economic stability than was produced by the gloomy IMF/World Bank meetings in early October. The G-7 effort looks promising, and APEC should be on the cutting edge of embracing and implementing G-7 proposals or adopting similar ones of their own.

Additional proposals for concrete action by APEC have come from outside the economic ministerials that have met regularly in Malaysia. Fred Bergsten, a well-known Washington economist and former Chairman of the APEC Eminent Persons Group, has proposed the excellent idea of adopting a region-wide training program for banking and financial institution employees, as well as financial officials, in modern accounting methods and risk assessment and management. This is a labor-intensive, painstaking process, but there is a critical lack of sophisticated financial expertise in the region that exacerbates efforts to solve the problem of inadequate supervision and prudential oversight of banks and financial institutions.

Expressing his views to business leaders assembled at a Pacific Basin Economic Council lunch last week in Washington, Bergsten suggested that the training program be paid for out of the $100 million that Japan contributed to the APEC Secretariat when it hosted the meeting two years ago. That money hasn't been touched, and could be allocated to help solve a problem that confounds crisis economies daily and would put expertise in place for long-run systemic improvements as well.

And if Japan hasn't figured out how to spend its pledged $30 billion aid package, Bergsten has just chaired an international panel of experts in Australia that called for that money to provide a credit line to crisis economies to implement a concerted fiscal and monetary expansion. Arguing that export-led growth has failed and will not provide the engine for renewed growth, Bergsten's panel believes that stimulating domestic demand, amounting to 2% of each country's gross domestic product, would produce growth of some 4% next year. That may be an optimistic number given the deep contraction across the region, but the crisis economies have gradually eased fiscal policy with positive results. Importantly, the panel stresses that this be a concerted action to minimize the chance that individual interest rate cuts would lead to another round of currency devaluations.

These are the kind of timely and joint solutions that APEC was made for. Let's face it: APEC's brand of economic multilateralism hasn't worked very well so far. Instead of this hybrid group of economies working out "building block" solutions that would provide models for the greater WTO community, the distinct philosophical approaches of APEC members have been totally divisive and have been allowed to weaken APEC's resolve to move the cooperation train forward. APEC can only be as strong as the members make it. If the financial crisis can't galvanize regional political will to jointly address problems that hit APEC shores especially hard, then APEC will continue to squander the opportunity to develop a real voice for Asia-Pacific interests in the global community. It is time for APEC to live up to its founders' vision.

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