

APEC AND THE CURRENT ECONOMIC CRISIS: ROLE AND RELEVANCE

Presentation by the Hon Gareth Evans QC MP, former Foreign Minister of Australia, to the APEC Business Summit, Kuala Lumpur, 15 November 1998

APEC has come a long way since the inaugural ministerial meeting in Canberra in 1989. But it hasn't come far enough. As the only organisation embracing all the economies affected, APEC could and should have been more than a bystander as the financial and economic crisis of the last year unfolded. Unless it is seen to be acting relevantly, purposefully and effectively over the next three days, there is a serious risk of it becoming totally marginalised as an institution, and its achievements of the last nine years squandered.

If APEC is not going to be marginalised as an institution, its first task is to actually *be* an institution. When I chaired the inaugural meeting I could only get agreement on our concluding statement defining APEC's role by repeatedly chanting the mantra 'APEC is a process, not an institution.' The very title 'Asia Pacific Economic Cooperation,' that rather incongruous collection of four adjectives in search of a noun, reflects the initial sensitivity to any suggestion that we *were* actually creating an 'institution.'

But of course we were creating an institution- and with the establishment of a permanent secretariat in 1993, the inauguration of the Leaders' Summit in the same year, the formalisation of the 2010-2020 free trade vision in 1994, and the ever increasing flood of cooperative activity taking place under the APEC umbrella, there are probably few now heard to deny that we now have one.

But I certainly believe we should now be prepared to go further in building APEC into a strong and *effective* institution. That doesn't have to mean anything like a European Union scale bureaucracy, but it must mean a staff big enough, and well resourced enough, not to have to rely on successive annual host nations for its primary administration and implementation effort.

I also believe we have to realise the limitations of APEC's current institutional processes: totally consensual decision making, voluntary implementation, and movement only by peer group pressure. A great deal has been and will continue to be achieved under these banners, but if we are going to move - certainly on the hard issues like trade liberalisation - from visions and targets to actual *achievements*, there's going to have to be an increasing recognition of the virtue of majority decision-making, and ultimately formal treaty obligations. At the very least, this would give strong political cover to those governments

who know they *should* move on various domestically sensitive fronts, but have been paralysed by political anxiety from doing so.

Whether or not APEC members embrace the revolutionary step of majority decision making, it would certainly be helpful in moving things forward if they could at least bring themselves to accept that they were actually engaged in a process of *negotiation* - not mere consultation and agreement by osmosis - in pursuing various APEC objectives.

So what are the objectives APEC should be pursuing, and how in particular should it be reacting to the present economic and financial crisis?

The simplest way of thinking about APEC is in terms of three tiers of activity, each building on the other like the layers of a wedding cake - namely, economic and technical cooperation, trade facilitation and trade liberalisation.

The foundation tier is, and has been from the outset in 1989, ***economic and technical cooperation***. In the early days this was seen in relatively limited terms, as involving not much more than data exchange and policy dialogue. As time has gone on it has come to embrace not only generalised policy development but specific programs of technical cooperation, infrastructure building and, at least in prospect, financial cooperation to overcome macro- economic problems.

It is under this banner of economic and technical cooperation - continuing to be more expansively defined - that some major initiatives to deal with the present crisis can and should be taken. A great deal of work has been done over the last few weeks and months by governments, economic organizations and think-tanks in defining those initiatives. It's not so much now a matter of coming up with new ideas - rather it's a matter of picking up and implementing the best of the proposals that have been already put on the table.

There are three proposals in particular that I believe APEC should embrace in Kuala Lumpur:

- First, a commitment to concerted action to *restore growth* in the crisis economies. The model is on the table with the Concerted Asian Recovery Program (CARP) proposed by Fred Bergsten's Panel of Independent Experts, whereby APEC leaders would agree to stimulate domestic demand through new fiscal and monetary initiatives, by 2 per cent of each country's GDP. Bergsten's group argues, credibly, that this would boost growth in the crisis countries by 4 per cent.

We may very well get from the APEC communique's some generalised commitment to taking action to restore growth. What we almost certainly won't get is any commitment to taking *concerted* - or fully coordinated and

agreed - action along the lines proposed by the Bergsten group. And if we don't, it won't add to APEC's achievement score-line

- Second, a region-wide plan for *corporate debt rescue* - to get capital flowing again in an environment where too many companies are far too highly leveraged, and so many economies' banking sectors need recapitalization. One ambitious proposal reportedly being considered by the G7 is for an international agency structured along the lines of the US Resolution Trust Corporation (set up to deal with the savings and loan debacle), which would buy up debts issued by overseas creditors to distressed private companies in crisis countries at a discount of 20 to 30 per cent.

A variant of the proposal, reportedly being pushed by the US, would involve Japanese and World Bank money being used to back the issue of government bonds the proceeds of which would be applied to the restructuring of bank and corporate debt.

It is not clear at this stage that these ideas are going anywhere, with Japan apparently less than thrilled at being cast as the bagman for a US idea. But unless they go *somewhere* this week, APEC will have dropped the ball again.

- The third proposal that should be embraced is for a major regional plan of action to improve *financial system governance*. Resources need to be mobilised to assist in the rebuilding of financial institutions and systems that have been found wanting, to meet new financial sector standards and to support programs of policy development and personnel training.

Some good ideas have been coming out of think-tanks in Australia and elsewhere as to how this might be put together. Ideally we would see a commitment this week to establish an APEC Fund for Financial System Reform as a vehicle for pooling funds -and expertise - by APEC governments, multilateral development cooperation agencies and the private sector. I doubt that we will see anything much more here than some generalised rhetoric, and some support programs being committed by individual countries. That would be better than nothing - but it won't involve much value-adding by APEC.

I don't want to suggest that all APEC rhetoric is useless. Political support from a body more broadly based than the G7 or G22 has its own value, and there are at least two other areas directly related to the current crisis where strong statements could usefully be made this week.

- Given the massive increase in poverty in the most crisis-affected economies,

increased social sector lending by organizations like the IMF and ADB has become desperately necessary, and should be strongly supported by APEC.

- APEC should lend its collective weight to the reform of the international financial system through measures - now being seriously debated for the first time by the G7 and G22 - designed not only to ensure transparency in the operations of those involved in international capital flows, but also real supervision and accountability.

Moving up from the foundation layer of economic and technical cooperation, the next tier of the APEC wedding cake is *trade and investment facilitation*. This took a few years to define and take shape, but since 1993 a deal of useful and path-breaking work has been done in areas important for business-cost reduction such as mutual recognition of technical standards, customs harmonisation and investment guidelines.

Any deterioration in APEC's credibility, as a result of its perceived failure to act sensibly and effectively in response to the current crisis, would be likely to lead to a loss of momentum on the trade and investment facilitation front - and that would be a very unhappy outcome. There is already some perception that 'trade facilitation' is just another slogan program - with the productive output varying in inverse proportion to the number of meetings necessary to produce it - and it is crucial that governments remain actively committed to real achievement here.

The top tier of the APEC cake is *trade liberalisation*, in the traditional tariff reduction sense. This was an objective hoped for by many of us from the outset, but has been only seriously on the agenda since the Bogor Declaration in 1994. From the long term perspective of the achievement of the 2010-2020 free trade goal it may not be particularly crucial that a major step forward be taken on trade liberalisation at this year's summit.

But is certainly critical - if APEC is to stay relevant and credible and be able to make a significant contribution to the resolution of the present crisis - that there be no significant step *backward*. Unfortunately, with Japan - because of its anxieties about fisheries and forests - being apparently determined at this stage to block progress under the Early Voluntary Sectoral Liberalisation (EVSL) program agreed in 1997, there is a real danger of the trade liberalisation agenda stalling.

Japan is by far the largest and most powerful regional economy, now accounting for an extraordinary 75 per cent of the combined GDPs (measured on 1990 price levels and exchange rates) of all the East Asian economies. The trouble is that if Japan refuses to move on EVSL, then this will make it much more difficult to persuade the weaker economies in the region to accept any package involving some short-term pain, but obvious longer term benefits. Worse still, it may even lead some countries to succumb to domestic pressures to reverse trade liberalisation gains already made.

It has to be said that the United States, while leading the charge against Japan on EVSL, is also doing a good deal of ducking and weaving at the moment so far as its *own* commitment to implementing the program is concerned. If the US is not going to honour its trade liberalisation commitments until they are endorsed by the WTO, then APEC is no longer adding much value to the liberalisation process. If all this were aimed at increasing the pressure for the early commencement of another global trade round, well and good, but the US Administration's less than enthusiastic promotion of fast-track negotiating authority in the Congress recently does not give any of the rest of us much cause for optimism.

All this is in fact relevant not only to the achievement of the Bogor targets in 10 and 20 years' time, but to the current effort to alleviate the impact of the current financial and economic crisis. As Ross Garnaut has argued, one of the major aspects of the financial crisis has been a serious decline in flows of trade among the countries of East Asia: falling economic activity and currency depreciation have led to large reductions in imports in one country after another, cumulatively producing an implosion of intra-regional trade and an intensification of contractionary pressures. We shouldn't forget that the Great Depression was transmitted from economy to economy through reduction of trade, driven by declining economic activity.

The argument is that liberalisation - if this were helped and not hindered by the actions of the world's two largest economies - could and would significantly assist in maintaining and expanding flows of intra-regional trade in the present environment.

So that's the task this week in Kuala Lumpur. It's certainly to maintain, and not squander, the hard-won momentum on trade liberalisation and facilitation. But above all, it's to take some new initiatives expanding in a major way APEC's economic and technical cooperation agenda - *big* initiatives that will stimulate growth, ease the corporate debt problem that is presently paralysing investment, and make some quick progress in solving the systemic and institutional problems that plague the region's financial sectors.

APEC has the chance now once and for all to assert its central place in the economic and political future of the Western Pacific, and to reinforce - at a critical time - that sense of total Asia Pacific *community* which is so critical to all our futures. It has the opportunity, and it mustn't blow it - but I fear it may be about to.

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