Looking east to answer a key globalisation question

ECONOMICS WEEK

Tomorrow's APEC summit in the Philippines will attract the attention of the world, says **Gerard Lyons**

The Budget is not the only event this week. More global attention will be paid to events in the Philippines than Westminster. Tomorrow is the start of the fourth Asian Pacific Economic Co-operation (APEC) summit. APEC started in 1989 as an informal grouping of 18 countries on the Pacific Rim.

Tomorrow the leaders of these countries will descend on the Philippines. It is important to appreciate how wide the geographic and economic spread of APEC is. Amongst its members are: the world's two major economies, America and Japan; the future economic superpower China; the southeast Asian tigers such as Hong Kong, Korea, Taiwan and Singapore; the booming economy of South America, Chile, as well as Australia and Canada.

The significance of this group should not be underestimated. APEC accounts for nearly half of world trade. Of late there have been many stories about potential problems in Asia. Certainly there are some worries in specific countries. Thailand has a trade deficit and policy has been tightened to slow growth. Malaysia is a concern, particularly as its stock market capitalisation is so high.

Apart from specific problems the main worry is a slowdown in regional growth. This appears largely due to a decline in the electronics sector, which accounts for a significant proportion of exports in many Asian economies. This promoted the view at the east-Asian economic forum last week that the Asian economic miracle is over. Yet such worries need to be put in context. Singapore and Taiwan may slow this year, but growth is still likely to be near 6%, way above what Europe can hope for.

It highlights that one needs to look at each country on its own merits. Whilst the same general regional themes will influence all, many countries are at different stages of development. The Philippines is booming, as it catches up after previous weak growth and following recent deregulation.

What then of APEC? Although an informal grouping, it is gaining more prominence, helped by the positive support of the USA. When established in 1989 it aimed to have regular summits, the first of which was in Seattle three years ago, followed by Indonesia and then Osaka last year.

APEC is committed to promoting free trade within the region, hoping to achieve this by 2010 for the developed countries and 2020 for the developing countries. APEC does not plan to do this with a single currency. A single market does not need a single currency in order to work. Instead it requires the removal of tariff barriers, helped by dynamic economic development.

It is not clear what this APEC summit will achieve. Last year it was decided that each country would come to this summit with individual action plans for trade liberalisation, and early removal of tariffs.

APEC has achieved much but still needs more substance to accompany its grand plans. There are problem areas, such as enforcing anti-dumping laws. Despite this, most Asian countries are likely to remove tariff barriers early, as the political pressure amongst the APEC countries gives momentum to a process that is already occurring because of economic and financial market pressures.

Just as trade amongst European countries has risen, so too has intra-Asian trade. Multinationals are sourcing component parts from around the region, as they do in Europe.

As trade between Asian countries has risen, so too have flows of capital and portfolio investment. Over half of capital investment in APEC is accounted for by intra-regional investment. Intra-APEC investment is set to rise, particularly if governments fulfil their promises and deregulate. Even Japan is now planning to embark on an aggressive planned process of deregulation.

This is another example of globalisation, which in this case is contributing to the emergence of the Asian-Pacific bloc. America's willingness to develop ties with Asia reflects both economic and defence considerations. And with European Monetary Union constraining growth and delaying the pace of integration of central and eastern Europe it is hard to imagine President Clinton changing his focus.

The APEC summit will be followed in two weeks by a ministerial meeting of the World Trade Organisation (WTO) in Singapore. Similar trade problems may arise at both meetings, but much attention will be on how the US and China resolve their differences over China's attempts to enter the WTO.

Last week, European Commissioner Leon Brittan proposed China be allowed in. The final decision may depend on the Quad group of the EU, USA, Canada and Japan. The pace of economic development in much of China is dramatic and the business opportunities for international companies are such that it is only a matter of time before China is formally allowed into the WTO. In return China will have to deregulate, allowing foreign firms wider access to its markets.

Germany is China's major European trading partner, but there are still great opportunities for UK firms, particularly as China looks set to become eventually the dominant economy of the region.

Portfolio investors need to be selective. Some economies in Asia like Thailand and Malaysia face problems, others like the Philippines are catching up. But the importance of APEC and the desire to deregulate and cut tariff barriers should help the region. It will also help answer the question whether Asia is simply catching up with the rest of the industrialised world, or is set to overtake it.

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