



Global meetings for more global restrictions

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In the next few days, there will be at least two big global meetings by political leaders of several countries to tackle the world's pressing economic problems. Starting tomorrow, the Group of 20 biggest industrial and emerging countries (G-20) will meet in Washington, DC on the current global financial turmoil. And next week, there will be an Asia-Pacific Economic Cooperation (APEC) meeting in Lima, Peru.

G-20 is composed of the G8 countries (US, UK, Japan, Germany, France, Italy, Russia and Canada) plus China, India, Indonesia, South Korea, Australia, Argentina, Brazil, Mexico, South Africa, Turkey, Saudi Arabia, and EU. The heads of the IMF and World Bank are also attending.

The G-20 meeting will be a big gathering with big promises of more regulations, more government intervention, that is why many people call it the "Bretton Woods II" to create a "new world order". The dominant thinking these days, especially among leaders of governments, is that deregulated global capitalism is the root cause of the current financial turmoil that affected even smaller economies. Hence, the solution is more government regulation of global and national capitalism. Governments should play an even bigger monitoring and interventionist role to "control" future global financial crisis of the current magnitude. And among the targets for bigger regulation will be the credit-rating agencies and hedge funds.

Below are some proposals that are flying around, that may be tackled in the G-20 meeting.

One, give more powers to the Financial Stability Forum (composed of central banks and regulators) and/or the IMF as "whistleblowers" for next crisis in sight. **Two**, create a "central clearinghouse" for opaque, over-the-counter derivatives to limit fallouts when companies that buy and sell these products go bankrupt. **Three**, create a global accounting standard that will correct the current mark-to-market accounting

standards where banks can report low values for assets on their balance sheets. **Four**, create a “college of regulatory supervisors” that will exchange notes about some trends and risks they see within their borders.

Regulations, by nature, are generally prohibitions. So when there are regulations on bank lending, there are explicit and implicit rules who cannot be extended loans. When there are regulations that criminalize banks if they will not extend housing loans to poor people with no regular income, then more risky loans will be given out. In short, regulations enable the regulators, the government more specifically, to behave as if they are the owners of the enterprises that they are regulating since there are fines and penalties for violating the regulations they have made.

But what if the regulations meant to avoid future crisis, social or economic, are among the major sources of current crisis? Well, the regulators will not lose their shirts and bank accounts if loan defaults will happen someday. They can in fact demand another set of regulations to complement, if not expand existing ones, to “control future crisis”. And the cycle of intervention and external irresponsibility goes on.

The creation of new bodies, especially supra-national institutions, is not costless. Whenever a new bureaucracy is created, existing or new taxes to finance those new bodies and bureaucrats will be justified.

It is still unthinkable up to now why many people cannot accept the fact that corporate bankruptcy, big or small, is part of capitalism. Corporations and individuals innovate and take risks. There are rewards for doing so, like huge profit and corporate expansion. But there are also punishment for taking risks, like huge losses and corporate bankruptcies. And when huge bankruptcies happen, the immediate reaction of those people is to call for more regulation of capitalism.

The second big meeting as far as Asian countries are concerned, is the APEC meeting in Lima, Peru from Nov. 16 to 22. APEC is composed of [21 economies](#).

Among the important issues to be discussed there are (a) conclusion of the Doha round of WTO talks, (b) labor mobility initiatives, (c) steps to achieve food security, and (d) the Free Trade Area of Asia-Pacific (FTAAP).

While it is good that a Pacific-wide free trade area has been proposed, it is always easier said and planned than done, as always.

Free trade remains among the most abused and most mis-understood concepts in the world today. Free trade simply means freedom to trade. No restrictions to trade, period. But there is a big and persistent myth that countries trade with each other and hence, governments of those countries set the rules, taxes and tariffs before countries can trade. This is wrong. Neither countries nor governments trade with each other. People do, individuals and their enterprises do. A Filipino restaurant chain does not mind where it will get its food ingredients, cooking machines and equipment, utensils and table cloth, and so on, so long as it is can get those things at good quality at a good

price and at a predictable period of time. And it does not mind if the people who eat in its chain of restaurants are Filipinos or other Asians or Americans or Europeans or people from other continents. That is how business and entrepreneurship works.

Unfortunately, governments all around the world, with the exception of a few unilateral free-traders, think that people should not be given such freedom to trade. Hence, they invented tariffs, customs duties and taxes, bureaucratic regulations and other non-tariff barriers (NTBs). Since the national trade bureaucracies and taxes have gotten out of hand, so governments created supra-national body, the WTO and various regional trade blocs, to restrain those abuses so that ultimately there will be freedom to trade.

If governments are serious about free trade, then there is only one simple scheme: a unilateral trade liberalization, like what Hong Kong and Dubai are doing. Free up international trade, shrink Customs bodies and abolish import restrictions agencies not related to health, sanitation and security. The freed up bureaucrats can join the huge army of exporters and importers, manufacturers and entrepreneurs, whose business is simply to expand the range of goods and services available to the people from across borders and continents, while making money at the same time.

So, will we see new set of international regulations, new supra-national body, in the coming months after the G-20 meeting this weekend? Will we see new conditions and pre-requisites before people can truly and freely trade with each other across countries and borders after the APEC meeting next week?

Looks like the answer to both questions is Yes. More personal responsibility is an “alien” that government leaders around the world would not want to be re-established. There is deep distrust for more personal responsibility, for human experimentation and innovation, so “more government responsibility, regulations and taxation” will remain, if not expanded. And this will be the biggest hindrance for people to solve social and economic problems on their own.