



BASC News

Berkeley Asia-Pacific Economic Cooperation Study Center
University of California, Berkeley

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BASC Interview

President of the Stern Group Offers Insight on APEC in the 21st Century

The Honorable Paula Stern is President of The Stern Group, an economic analysis and trade advisory firm in Washington, D.C. During her years at the International Trade Commission, as a commissioner from 1978-1987 and as chairwoman from 1984-1986, Dr. Stern analyzed and voted on over 1,000 trade cases involving a broad range of industries and issues. Dr. Stern is a member of the U.S. President's Advisory Committee for Trade Policy and Negotiations (ACTPN). She is also a member of the Council on Foreign Relations, the U.S. Committee on NATO and the Committee for Economic Development, where she co-chairs the trade and globalization subcommittee. She currently serves on the boards of directors of Avon Products, Inc., Hasbro, Inc. and The Neiman Marcus Group. Dr. Stern received a B.A. from Goucher College, an M.A. in Regional Studies from Harvard, and a Ph.D. in International Affairs from Tufts University's Fletcher School of Law and Diplomacy.

BASC: Thirteen years after its inception, APEC is no longer a young institution. Its development has produced mixed results and different hopes for its future. How do you feel about the criticism that APEC cannot overcome these disparate views of its past, current, and prospective performance?

Stern: There is no question to APEC's value. I continue to believe in the impor-



tance of APEC meetings to weave a web of contact amongst these economies that reflects their market relationship in trade and investment. To the degree to which there is leadership and soundly devised goals, APEC has a positive future.

BASC: In your early policy memo "APEC in Year Seven Osaka Summit: A Time of Reckoning," published by the Progressive Policy Institute in November 1995, you assailed the Bogor Initiative as counterproductive.

Stern: As strongly as I could, I tried to foretell the overvaluation of the Bogor Initiative and warn against overselling the capabilities of APEC. As opposed to the Bogor Initiative's "fantastic but fake"

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Director's Notes

WELCOME TO *BASC News*. In this issue we return from specific issues facing APEC negotiators and consider trade liberalization in the Asia-Pacific from a broader perspective. The range of analyses and viewpoints presented in this issue indicate that the future of APEC rests largely on its success not only at fulfilling its own ambitious mission, but also at co-existing with and supporting other liberalization programs—both regional and global.

For *BASC Interview*, Paula Stern describes APEC's potential importance as a facilitator of progress on matters including China-Taiwan relations and improved ties between East Asia and Latin America. She warns, however, against overselling or stretching APEC's capacity, as happened with the Bogor Initiative. Members must be realistic and patient as they strive to consolidate these partnerships.

In *BASC Analysis*, Christopher Dent examines the recent regional trend toward

bilateralism. He cautions both enthusiasts and critics not to overstate the long-term significance of these initiatives, and suggests that bilateral ties are likely to benefit APEC's development. At this point, however, the jury is still out.

BASC Spotlight falls on Russia. Jonathan Essner evaluates the rationale behind Russia's membership from the perspectives both of the country and the other members. Russia clearly views membership as a step toward larger economic objectives and its contribution thus far has improved, not weakened, APEC's effectiveness and legitimacy.

In *APEC Update*, Min Gyo Koo reviews the recent Shanghai Summit and the negative effects that China-Taiwan relations, events of September 11, 2001, and discord among APEC members are having on regional cooperation. In the meantime, APEC's move to Latin America this year will yield new challenges.

Finally, *BASC Book Review* discusses John Ravenhill's comprehensive, in-depth analysis of the political economy of APEC and six member countries.

BASC Projects

In the past year BASC has broadened its research agenda, covering East Asia, Latin America and Europe.

With generous support from the Japan Foundation Center for Global Partnership (CGP), the **Asia-Pacific Bilateralism** project has started exploring the underlying causes of various APEC countries' embrace of bilateralism, as well as its policy implications for both APEC countries themselves and the broader international trading system. The first conference will be held in Berkeley in March 2003 and the second one will be followed in Tokyo in September 2003.

This fall, BASC cooperates with the Centro de Investigación y Docencia Económicas (CIDE) in Mexico City on the project **International and Domestic Dimensions of Mexican Trade Policy**. Supported by the University of California Institute for Mexico and the U.S. (UC MEXUS), this research focuses on various domestic and international dimensions of Mexico's trade policy formulation, especially in reference to NAFTA and Mexico's rapidly evolving domestic political arena. The project will culminate in a conference in Mexico City in the spring of 2003.

With the support of the Institute of European Studies at U.C. Berkeley, BASC is

also conducting in-depth analysis of the viability of "transregionalism" as an emerging level of international trade relations. BASC convened a preliminary conference in September 2001 to explore whether incipient **EU transregionalism** would significantly impact the changing face of international trade. Our final meeting for this project will be held in Brussels in October 2002 where officials from the European Commission will comment on the papers.

The three years of our **European, Japanese, and U.S. firms in Asia** project, funded by the CGP, have proven very successful. The first volume of our work appeared in August 2001 as *Winning in Asia, European Style: Market and Nonmarket Strategies for Success*. Our second volume, *Winning in Asia, Japanese Style: Market and Nonmarket Strategies for Success*, will appear in September 2002 (see page 8). The third volume, *Winning in Asia, American Style: Market and Nonmarket Strategies for Success*, will be published in early 2003.

Papers generated by the **Latin American Trade Strategies** project, originally presented at a conference at the Woodrow Wilson Center in Washington, D.C., will be published in the spring of 2003. This project enjoyed support from the Latin American Program of the Woodrow Wilson Center, the Berkeley Center for Latin American Studies (CLAS), and the Clausen Center at the Haas School of Business.

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Russia's Winding Road Toward WTO Membership

Jonathan Essner

BASC Research Assistant

This is the second article in the "BASC Spotlight" series on different APEC member economies which illuminates political and economic trends in the Asia-Pacific by focusing on representative developments in those countries. Russia's admittance to APEC received much criticism back in 1998, but President Putin's recent actions effectively countered those doubts.

Russia has attempted to join several international organizations—political, economic, and military—to further integrate itself in the international community and maintain a semblance of influence. Similar to its domestic reforms, Russia has found this a complicated endeavor, especially with its ambitious push for World Trade Organization (WTO) membership. Russia has discovered, and perhaps expected all along, that the half-steps it began to take in the mid-1990s towards economic reform, such as joining APEC, are escalating towards much larger steps and, as indicated by a series of recent major decisions, are beginning to produce results.

The roots of Russian economic reform, domestic and international, can be traced back to the 1995 decision to pursue APEC membership, an economic organization Russia deemed important in establishing an international economic presence. Russia successfully gained membership three years later, under two principal rationales. First, Russia considers greater access to the Asian markets an excellent opportunity; the Russian Far East economy accounts for a meager three to four percent of external trade. Increasing economic activity in the region should help spur investment in infrastructure, as transportation and communication lines need improvement. In fact, during a July 2000 address in Blagoveshchensk, President Vladimir Putin expressed concern that the region, with a declining population, must be revived for purposes of national consolidation. Within decades, he warns, the population will be speaking Chinese, Japanese or Korean. Also, from Russia's perspective, as less than twenty percent of its trade takes place with Asian coun-

tries, a region that accounts for nearly half of all world trade, membership presents an enormous opportunity to strengthen economic relations.

Second, APEC members, led by Japan, welcome Russian membership. They expect to benefit from the country's abundant natural resource base, which includes natural gas, coal, oil, forestry, and fisheries. They have political motives as well: Japan hopes to increase the likelihood of a peace agreement with Russia, formally outstanding since the Second World War. In addition, some Asian countries hope to influence Russian decision-making regarding regional security, more specifically, conventional arms control, nuclear disarmament, and nonproliferation of nuclear materials and technology, particularly in South Asia. Finally, Russia's territorial dominance in the region, including the largest Pacific coastline, makes Russia a likely and natural member.

The partnership has not been without controversy, however. Critics suggest that Russia intends to use APEC membership to solicit support for WTO membership from the 18 countries that share membership between the two organizations. Putin does not deny this and openly calls for APEC member support in the Russian WTO campaign. The inference that Russia disregards APEC responsibilities, however, is false. Putin has spoken of a "multilateral trade system" and the "liberalization of economic regimes" in the region, goals highly regarded by APEC members. Moreover, Russia demonstrated its commitment to APEC by offering its expertise and resources towards improving and increasing the energy trade and transportation

in the region. In September 2002, Russia will also host two major APEC events in Vladivostok—the first since joining four years ago: the "Symposium of the APEC Forum" and "Investment Project Fair of APEC 2002."

Russian economic reform has taken considerable steps during the past year, particularly regarding agriculture and collectivization of land. These decisions may be a result of international pressure, but the Russian leadership has acquiesced, hoping to bolster Russia's WTO play. Indeed, Putin considers WTO membership the prize for enduring economic reform and has taken matters into his own hands. In early 2002, Putin began to de-collectivize the nation's farmlands, comprised of nearly one billion acres that were nationalized in 1917. In June, the Duma, Russia's lower house of Parliament, passed a preliminary bill calling for a legal market to buy and sell farmland. The farmlands will be privatized, which has been a controversial process in other industries in Russia, but a positive reform nonetheless. Both the United States and the European Union rewarded these steps by granting Russia "market economy status." Benefits include a greater influence in commercial negotiations, since decisions on trade topics will use Russian pricing and production costs, and elimination of extra duties on imports. Although WTO membership for Russia is at least three years away, the country has taken considerable steps towards economic integration with the international community—beginning with APEC in the mid-1990s. There appears to be an escalating trend of in-

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Paula Stern interview

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approach, a nascent organization such as APEC must build confidence on a step-by-step basis. Most people recognize that being overambitious and unrealistic put

tioned previously, APEC should not overshoot its potential. I do not want another Bogor situation—underperformed and overpromised. I hope that the support-

“The Latin Americans can teach—and learn from—the Asian members of APEC.”

-Dr. Paula Stern

APEC in a position of constantly underperforming and being accused of failing. Political expedience and individual satisfaction, say, of the Eminent Persons Group, attracted many to sign the initiative. I thought this method reflected very short-term calculation and did not reflect a business-like point of view.

BASC: More recently, APEC has functioned as a *de facto* (though to a limited extent) regional forum for broader “political” cooperation as well since the 1999 Auckland Summit during the East Timor crisis. Given the low institutional density in the Asia-Pacific, do you think such a multidimensional approach to regional cooperation is inevitable?

Stern: At any summit, neither bureaucrats nor advisers can deter the leaders from discussing an issue that the leaders consider most important to them at that moment. As I had written in my first assessment of APEC in the early nineties, discussions between the leaders on a one-on-one basis is a positive factor associated with APEC. The hallway conversation, though it may not be anticipated by the “sherpas” involved in the planning process, enables leaders to truly talk instead of run through a neatly packaged “dialogue.”

BASC: At the Shanghai meeting, the events of September 11th overshadowed the significance of APEC as a regional “economic” forum; security concerns predictably engaged the leaders. Should there be a built-in, additional political security track within APEC?

Stern: I would advise against it; as I men-

tioned previously, APEC should not overshoot their ambitions. If APEC leaders push the forum further, they would forego facilitating economic cooperation—an adequate, yet unaccomplished mission.

BASC: Taiwan’s boycott, in response to China’s failure to extend the country a formal invitation, tainted the Shanghai Summit. The faltering relationship between China and Taiwan could destabilize the fragile political situation in the Asia-Pacific. Can the U.S. deal within and beyond APEC to build confidence and prevent conflict across the Taiwan Strait?

Stern: The U.S. role in the Taiwan-China relationship stands larger than APEC, even at its grandest conception. Continuing to have these economies participate in APEC is constructive and necessary, however. Cooperation results from countries reflecting market development and taking gradual steps, rather than giant leaps; Taiwan and China have been engaging with each other slowly but steadily. While this bilateral integration might present a security externality in favor of China, we must also consider China’s growing dependence on Taiwan in economic terms—an unintended consequence of Taiwan’s heavy investment. The presence of over 500,000 Taiwanese entrepreneurs in coastal provinces reminds us that economic and political perspectives are likely to balance each other in the Taiwan-China relationship. APEC can help channel these nonmarket and market forces into a future of peaceful prosperity in the region.

BASC: The APEC summit meetings move, for the first time, to Latin America—in Mexico this coming fall and in Chile in 2004. Given that some Asian member countries are still skeptical about whether Latin America should be part of the forum, how can the member countries in Latin America (and in the Western Hemisphere more broadly) demonstrate their value to APEC at this critical juncture?

Stern: It’s important for Mexico to share their entrepreneurs and best practices with both sides of the Pacific, as outlined in the APIAN [APEC International Assessment Network] report from last October [“Shanghai, Los Cabos and Beyond”]. The Latin Americans can teach—and learn from—the Asian members of APEC. For example, Latin Americans can exchange ideas about political transformation and banking reform, while the Asians can impart knowledge on export promotion and savings rates. Let the government officials build on these two meetings [Mexico in 2002 and Chile in 2004] to benefit their own entrepreneurs.

BASC: How do the U.S. firms, of which you currently serve as a director, address the new East Asian bilateralism and other developments (the recent financial crisis, the security issues from the Shanghai Summit, etc.)?

Stern: While there are no extraordinary circumstances in the Asia-Pacific, these issues provide important background music to the day-to-day operation of these corporations. Generally, both Avon and Hasbro use virtually all the members’ economies for sourcing and broadening their consumer and client markets. On the consumer side, Asian tourists might visit the Nieman Marcus in Hawaii. We’re all part of this wonderful global economy. APEC removes barriers to trade and facilitates movement of businesspeople, which brings prosperity to these companies, their stockholders, and their employees.

September 11th and the Shanghai Summit

Min Gyo Koo
BASC Project Director

After several years of cautious negotiation, Japan and Singapore finally concluded the Japan-Singapore Economic Agreement for a New Age Partnership at the APEC meetings in Shanghai in October 2001. Despite much anticipation in the previous months, many observers were struck that Japan, a long-time supporter of broad-based trade liberalization, concluded its first post-World War II bilateral free trade agreement (FTA).

Countries in the Asia-Pacific region increasingly realize that multilateral trade forums—be it the WTO or APEC—can no longer hammer out the terms of global trade liberalization as effectively as before. Given the region's heavy reliance on trade, the urgency of searching for new trade strategy was further fueled by the recent global recession stemming from the world's two biggest economies—the United States and Japan. Against the background of growing demand to diversify trade, bilateral deals between like-minded countries both within and beyond the region seem to rank at the top of the solution list—in particular, to many East Asian countries.

In the wake of the region's growing economic woes, APEC's constant mediocre performance to materialize its promises for free trade and investment had already been eroding the authority of APEC before its leaders convened in Shanghai. The significance of APEC as a regional economic forum was further overshadowed by the September 11th terrorist attacks. Naturally, security issues attracted primary attention during the Shanghai meetings. For APEC as a pri-

mary regional forum for broader political cooperation, however, maybe it was not necessarily a bad coincidence. In the Shanghai Accord, leaders condemned terrorism in any form and insisted that the United Nations take on a pivotal role to fight terrorism. The leaders also agreed to implement anti-terrorism measures such as preventing the financing of terrorism, increasing aviation security, and safeguarding emergency oil supplies. Yet the counter-terrorism agenda adopted in Shanghai was not a purely *ad hoc* creation, as APEC has increasingly become a forum to discuss regional security issues since the 1999 Auckland Summit during the crisis of East Timor.

As to the economic agenda, there was a bit of progress in the language of the Shanghai Accord, though not in its substance. In order to overcome recent economic difficulties, the APEC leaders reaffirmed their commitment to the Bogor Goals. Leaders agreed to further develop Ecotech Action Plans (EAPs), drawing from the experience and lessons learned in the pilot phase. It is also worth noting that leaders endorsed the so-called "pathfinder initiatives" based on a group of members piloting the implementation of the initiatives, which will provide a framework to encourage broader participation through enhanced capacity building programs. As Professor Richard Feinberg of the University of California at San Diego points out, this is potentially a major procedural breakthrough for the forum, where progress has been blocked too often by the ability of the

equivalent of five percent of the vote—that is, one economy (often Malaysia) out of 21 APEC members—to exercise veto power. Now the task is to give content to the pathfinder approach.

In the meantime, the Summit was tainted by Taiwan's boycott in response to China's failure to formally invite her. Taiwan, though one of the most significant traders in the region, has been both politically and diplomatically frustrated. Although the boycott has not hurt relationships among the key players—including the U.S., Japan and China—the faltering relationship between China and Taiwan could destabilize the already fragile political situation in the East Asian sub-region of the Asia-Pacific.

What needs to be done to ensure that APEC's mission, as reaffirmed in the Shanghai Accord, is accomplished? As the APEC meetings move to Latin America for the first time (Chile will host in 2004), Mexico is challenged with maintaining the Shanghai consensus against terrorism while strengthening APEC's institutional capacities against recessionary pressures. To the embarrassment of the Latin American members, some Asian countries insist on an exclusively Asian-centered regional institution and are skeptical about Latin America's (and, more broadly, the Western Hemisphere's) presence in the forum. The next few years represent an opportunity and a challenge: Latin America must demonstrate its value to APEC by helping to precisely define the next steps for the counter-terrorism campaign and a recovery from recession.

Russia's Road...

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ternational cooperation, for which Putin should be credited. He complied when WTO experts advised reform of the ag-

ricultural sector towards Western standards, a WTO requirement.

Regarding economic reform, Russia is willing to cast away a prior isolationist tendency and embrace global economic participation. Russia still must address other concerns: a poorly func-

tioning legislation system, lack of transparency in markets, and nearly nonexistent communication between local and state government. If adequately addressed, these issues will bolster Russia's argument for joining the WTO.

Bilateral Free Trade Agreements in the Asia-Pacific: Towards a 'Lattice Regionalism'?

Christopher M. Dent
University of Hull

Important new developments in the Asia-Pacific bilateral free trade agreement (FTA) trend have transpired since the late 1990s. Back then, around 15 new FTA projects in the region had been initiated, with Japan, the U.S., Singapore, South Korea, Mexico, Chile, Australia and New Zealand as the perpetrating countries. Now, the number of new projects has doubled to 30 with many additional protagonists entering the fray, namely China, Taiwan, Hong Kong, Thailand, the Philippines and Canada. Singapore concluded FTA deals with New Zealand in November 2000 and with Japan in January 2002, while China and the ASEAN group agreed in November last year to implement an FTA between them. The development of many other projects has also made substantial progress since 2000.

From this perspective, the bilateral FTA projects phenomenon has further defined the landscape of the new Asia-Pacific international political economy. Bilateral FTAs are now seen as the most viable way to advance freer trade in the region. They have too become an important new mechanism for cultivating closer economic and political ties between Asia-Pacific states. For example, Japan and South Korea's bilateral FTA project plays an integral part of their longer-term reconciliation process. Singapore's efforts to secure an FTA with the U.S. are not just driven by market access interests but by the objective of tying American interests more tightly to the city-state's regional locale. China's FTA deal with the ASEAN group is intended to further demonstrate to the outside world the country's willingness to engage in substantive international partnerships, and thus an attempt to dispel the anxieties of those fixated with the perceived economic and political threats China poses. Both Australia's and New Zealand's FTA policies are the latest trade diplomacy tactics employed within their respective longer term strategies of forging closer economic community links within the region. Chile and Mexico's new FTA projects across the Asia-Pacific represent just an extension of their already well-established FTA diplomacy.

For the U.S.—which came quite late to this new FTA trend—bilateral FTA projects have provided an early opportunity for the Bush Administration to prove its free trade credentials. Although the previous government had initiated some kind of bilateral FTA policy in the Asia-Pacific, it achieved little in progressing beyond the United States' relatively limited FTA portfolio, comprised of NAFTA and bilateral FTAs with Israel and Jordan. The atrocities of September 11th, however, provided fresh impetus. The United States' bilateral

projects form part of Washington's broader strategy of international coalition-building against the specter of terrorism—trade agreements cemented ties with like-minded states.

The relationship between the bilateral FTA trend and APEC is an interesting and critical one. On one hand, many hope that these bilateral trade deals will help realize APEC's 'Bogor objectives' of establishing a free trade and investment zone across the Asia-Pacific by 2020. Fred Bergsten and other notable APEC advocates recognize the bilateral trend as the most practical trajectory, and claim that this approach is APEC's latest trade liberalization strategy—a contentious point to which I shall return. Furthermore, the bilateral FTA phenomenon focused APEC on its true strengths and achievements to date, namely in trade and investment facilitation as well as economic and technical cooperation, or 'ecotech'. The organization's member states have been devoting an increasing amount of time and resources to ecotech, exploiting APEC's revealed comparative advantage. In combination with post-9/11 events and developments, the bilateral FTAs have made many APEC members re-evaluate the organization's fundamental purpose, raising concerns about adding security cooperation to its original economic remit.

On the other hand, the new bilateralism seriously challenged the guiding principles and *modus operandi* of APEC. For example, this trend denotes a switch in reciprocity choice in trade liberalization, from the *diffuse* reciprocity principle, on which APEC 'open regionalism' is based, to the *specific* reciprocity basis on which bilateral FTAs are negotiated and have developed. In other words, APEC member states have clearly shown their predilection for simultaneous and direct *quid pro quos* in trade deals (the bilateral way) rather than voluntarily contributing to a common pool of trade liberalization benefits that all contributors also draw from (the APEC way). In this sense, the 'concerted bilateral liberalization' approach displaced the 'concerted unilateral liberalization' of APEC's Individual Action Plans and Early Voluntary Sectoral Liberalization schemes. More importantly, while these proposed bilateral FTAs may be consistent with WTO rules (as embodied in Article 24), their preferential character runs counter to the fundamental multilateral principles of the WTO. Hence, this discriminatory bilateralism could be viewed as an inversion of APEC's 'open regionalism' and advocacy of multilateralist approaches on trade liberalization. Bilateral FTA projects may well have made technical breakthroughs on services trade liberalization, e-commerce, and investment, as well

as other new complex trade issues from which WTO processes could learn—an argument particularly made by the Singapore government—but their reconciliation with APEC's core principles remains nevertheless problematic. The bilateral FTA phenomenon essentially has arisen from within the vacuum created by APEC on regional trade liberalization.

We should not assume, however, that these new bilateral FTA projects avoid similar difficulties on advancing trade liberalization in the region as experienced by APEC in the 1990s. The key problem area for bilateral FTA negotiators is entrenched protectionist interests, especially in agriculture. Even during the negotiations of the Japan-Singapore Economic Partnership Agreement (JSEPA), the Japanese agricultural lobby became notably anxious: the threat of competition from Singapore's agriculture sector (surely, only the Vatican's is less significant) dwarfed in comparison to the precedent JSEPA would set for inking Tokyo's future FTAs. Elsewhere, highly competitive American farmers continue to lobby Washington against allowing free market access to more competitive Australian and New Zealander rivals. Meanwhile, FTA talks between South Korea and Chile—the Asia-Pacific's longest standing 'new' FTA project—have been constantly knocked back over the issue of agriculture trade liberalization. In other sectors, the U.S. has taken Singapore, the paragon of free trade virtue, to task over services trade protectionism. Textiles, footwear, petrochemicals, steel and other sensitive trade sectors represent additional boulders in the path of concluding bilateral FTA deals in the Asia-Pacific. Another problem is that FTA projects require a proportionately high level of diplomatic resources, especially in comparison to multilateral trade negotiations, which realize diplomatic economies of scale. This challenge only partly explains the slow progress of new FTA policies in many Asia-Pacific states; many governments (Japan and Singapore, for example) have been willing to prioritize diplomatic resources to developing FTA policies, by increasing recruitment in their foreign affairs and trade ministries.

But these bilateral agreements are not just about trade liberalization. In keeping with an emerging global trend, they are invariably 'broadband' in nature. These arrangements incorporate a range of trade and investment facilitation measures and economic co-operation initiatives, as indicated by their formal names: Japan-Singapore Economic Partnership Agreement, New Zealand-Singapore Closer Economic Partnership, Japan-Korea Economic Agenda 21. The JSEPA establishes mutual recognition agreements on rules and standards, the use of a commercial dispute resolution mechanism, as well as measures on government procurement, competition policy, e-commerce, multi-media, science and technology, investment promotion, tourism, and educational exchange. Such measures aim to cultivate a wider micro-networking between policymakers, business communities, and other societal groups through broadening the points of contact among the participat-

ing countries. Another reason for this FTA-plus approach is that most bilateral FTA perpetrators retain only single-digit average tariff rates on imported industrial products; the actual benefits of duty free trade are relatively marginal. Thus, additional measures make them more worthwhile to bilateral partners in pure economic terms. As mentioned earlier, these agreements offer a strong strategic purpose by fortifying alliance ties with other Asia-Pacific states, which overshadows trade creation and other economic gains generated by these projects.

Finally, the potential evolution of this intensified trade bilateralism in the Asia-Pacific at the regional integrative level deserves serious consideration. The bilateral FTA trend exposes the new 'thinking regionally, acting bilaterally' approach to cooperation in post-crisis East Asia. Parallels abound with developments in the 'ASEAN Plus Three' (APT) process in which regional financial cooperation is based on a series of bilateral currency swap agreements between East Asian states. The APT and bilateral FTA trend have shown signs of gradual convergence as the idea of creating an East Asian Free Trade Zone has become more intensely discussed. Over the last few months, this proposal has stirred interest in key sections of Japan's Ministry of Economy, Trade and Industry (METI), even though it also may be an attempt to circumscribe China's FTA with the ASEAN group.

In other developments, talks recur of plurilateral FTA projects involving Singapore, New Zealand, Australia and Chile. Of these four, only Chile and Australia have not initiated a bilateral FTA project link. Establishing a 'Pacific-3' or 'Pacific-4' FTA between these states would be based on a rationalization of the various procedures and measures (on customs, rules of origin, etc.) into one unified system. The idea of a Greater China FTA between Hong Kong, Macao, China and possibly Taiwan has too been recently mooted. Such trade bilateralism, as with the finance bilateralism found within the APT process, may create a 'lattice' framework: wider regionalist developments can build on the combined interests of strategic diplomacy and economic competitiveness. Yet this framework remains mostly conjecture. Despite further intensification of the bilateral projects, only three new agreements have actually been signed between Asia-Pacific states since the late 1990s. Removing diplomatically hyperactive Singapore out of the equation leaves one: the China-ASEAN trade deal, which will not be implemented until 2010. The remainder has taken much longer to develop than expected. A higher number of bilateral FTA deals must first be concluded, implemented and evaluated before Asia-Pacific states are likely to commit themselves to progressing to sub-regional or wider regional trade deals based on lattice bilateral foundations. Nevertheless, the bilateral FTA phenomenon may one day be viewed as the critical evolutionary stage in the forging of regional integration in East Asia and the Asia-Pacific.

Constructing Regionalism: An Institutional Assessment

John Ravenhill. *APEC and the Construction of Pacific Rim Regionalism*. (New York: Cambridge University Press, 2001).

Professor Ravenhill of the University of Edinburgh assesses the institutional elements of APEC within broader considerations of regionalism and institutionalization in general. A clear, thorough overview of the theories and literature on regional trade and political-economic collaboration frames in-depth consideration of APEC's development, institutional design, and effectiveness. Ravenhill's multi-layered, long-term vision of the demands and challenges facing regional partners, as well as the specific responses of APEC members, make this analysis particularly relevant to an understanding of the contemporary dynamics of Asia-Pacific regionalism.

The book begins with a description of the establishment and growth of APEC, based on a legacy of collaboration and regional ties. Ravenhill suggests a number of factors that influence governments' interests and willingness to engage in regional collaboration. Leading the reader through the complexity of regional integration, he argues that criticism centered on APEC's weak institutionalism are often overstated.

Ravenhill examines the current form of the organization, its approach to economic cooperation, and the impact that these have had on APEC's effectiveness over its first decade. The book also explains how changes in the broader international context affect economic collaboration, and highlights the significance of individuals and governments in brokering the bloc's establishment. Turning from the macro- to the micro-level, the analysis includes cognitive factors such as the evolution of the various identities of the principal actors that have shaped APEC. By linking states' identities with the regional or transregional regimes to which they be-

long, Ravenhill provides multifaceted assessments of various governments' calculations of national interest. The cases of the U.S., Japan, ASEAN, China, and Australia receive special treatment in exploring the effects of the relationship between regionalism and multilateralism. He also explores the extent to which APEC's rules and procedures limit its capacity to shape members' behavior. The book provides rich empirical information on members' regard for APEC's effectiveness and case studies of two sets of negotiations: investment principles and proposals for early liberalization in several industrial sectors.

For him, APEC's ineffectiveness stems from an institutional design inappropriate for its tasks. He proposes two alternatives to move APEC beyond the gap between its commitments and lack of relevant institutions for achieving compliance. One is a change in institutions, and the other is improved alignment between APEC's agenda and its sanctioned institutions. Ravenhill argues that regionalism in general, and APEC in particular, is a step towards global liberalization. He analyzes the paradox of joining APEC: nations seek membership despite APEC's ineffectual efforts at economic cooperation and creation of regional liberalization does not discriminate against non-members.

Ravenhill concludes that "[w]hether an institution whose principal focus is the minutiae of trade facilitation and whose achievements remain modest will continue to attract participation at the highest political level remains to be seen." Ravenhill's analysis provides insight into the broader, complex relations between the forces of regionalism and multilateralism around the world.

Review by BASC Staff

Business and Politics

This international journal explores the strategic space in which governments and firms interact. It focuses on two areas: the integration of market with nonmarket corporate strategy, including organizational design, legal tactics, and lobbying; and government efforts to influence firm behavior through regulatory, legal, and financial instruments. Articles in the forthcoming November 2002 issue

include Glenn Fong on government and the PC revolution; Jonathan Story and Robert Crawford on efforts to cope with the Y2K bug; Aviva Geva on the Israeli bank-share crisis of the early 1980s; and Steve Tombs and Anne Alvesalo on economic crime in Finland.

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