

BASC News

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BASC Interview

CCIT's President Ties China's WTO Status to American Trade Interests

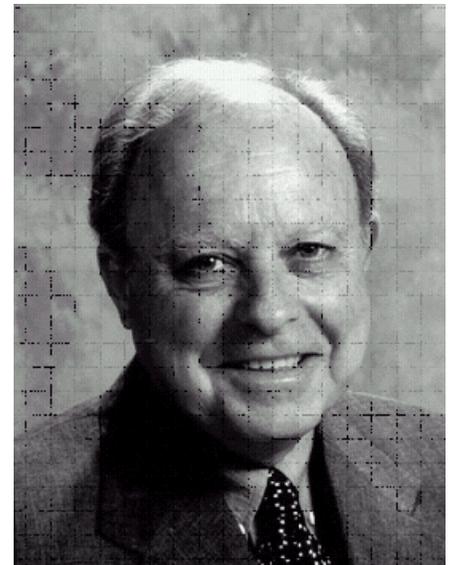
CCIT is a 40 year-old statewide organization comprised primarily of California corporations dedicated to trade expansion. Its mission is to facilitate, through education, promotion, and advocacy, communication between its member companies and policy makers to protect and promote trade policies and programs which advance the global trade and investment interests of California businesses. Mr. Joseph Harrison is the President of CCIT.

CCIT and Issues in U.S. Trade Policy

BASC: Among the many peak California business organizations, what is unique about the purpose and functions of CCIT?

Harrison: CCIT is the only statewide organization dedicated to promoting policies at both federal and state levels that will facilitate advancement of the international trade and investment interests of California business. Although CCIT has been a strong voice for these objectives for many years, a sister organization – CCIT Education – was recently created to help the process of educating the people of California on the important role that global trade plays in development of our state's economy. That story has not been told effectively. Because there are many strident voices opposed to trade for various reasons, about 58 percent of the people believe trade is bad for our nation. That translates directly into some policy makers – especially Members of Congress – voting against sound trade policy. Our goal is to correct that situation.

BASC: Following from CCIT's mission statement, what sorts of educational functions or programs has CCIT conducted?



Harrison: CCIT is currently seeking major funding to conduct a statewide educational program on the benefits of trade to California. CCIT also has an intensive program of educating members of the California Congressional delegation – by far the nation's largest at 54 members – on the trade issues that our members find important. We have also begun what will likely be an annual forum at the Monterey Institute of International Studies. We invite the California delegation – an astonishing 10 Representatives participated in our first one this past January – to attend a two-day private session in which we thrash out the important trade issues soon to be faced by Congress. We will repeat this forum in the first days of the new millennium.

BASC: CCIT strongly supports China's and Vietnam's accession to the WTO. Why?

Harrison: As globalization shrinks the world in ways not even imaginable a few years ago,
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Director's Notes

WELCOME TO THIS ISSUE of **BASC News**. While our last issue (Vol. 2, No. 1) focused on the immediate aftermath of the Asian financial crisis and its spillover effects on global trade and progress in liberalization, this issue appropriately shifts our focus to examining the medium to long term legacy of the crisis. According to the latest, upwardly-revised figures from the IMF, South Korea, Malaysia, Thailand and Indonesia have all rebounded to positive growth rates, in a pattern much like what Mexico experienced in its last financial crisis.

With the sirens fading to the background, academia and policymakers have turned their attention and reflection to issues of long term implications for institutional evolution and reform. For our **BASC Analysis**, Professor Barry Eichengreen reviews the global agenda to reform the international and domestic financial architectures to reduce the risks of future crisis. Our **BASC Book Review** takes a closer look at Eichengreen's recommendations presented in his important new book, *Toward a New International Financial Architecture*.

U.S.-China relations have heated up this year with allegations of Chinese espionage and the NATO bombing of the Chinese embassy in Belgrade. What are the implications of the stalled momentum on China's WTO

accession for American trade interests? We take up this question in our **BASC Interview** with Joseph Harrison, President of California Council for International Trade, a leading pro-trade advocacy association in California.

Our **Worldview** section takes an insider's look at the profound debates over the future of APEC at the 25th Annual Conference of the Pacific Forum for Trade and Development (PAFTAD). Participants at the conference reexamined fundamental issues such as whether subregional trading arrangements have detracted from open regionalism and multilateralism, and whether APEC institution-building can advance by renewing efforts in the program for economic and technical cooperation (ECOTECH) and in competitive and deregulatory policy areas.

Under a major Japanese grant, BASC continues to undertake comparative research on American, European, and Japanese firms' market and nonmarket strategies in East Asia. We welcome participation and inquiries about this project. The inaugural issue of *Business and Politics*, a BASC-sponsored journal devoted to examining the intersection of corporate strategy and public policy, was successfully launched last spring and received many positive reviews from its readers. We welcome inquiries on submissions for future issues.

—**Vinod K. Aggarwal**

BASC Projects

Trevor Nakagawa

We are very excited about the upcoming year for the Berkeley APEC Study Center (BASC). First, we are happy to report that the *Asia Beckons Europe* project is scheduled to be completed before the end of the year. Final drafts are currently being reviewed and will be available as BASC working papers available on-line at the BASC website. With several case studies of high-profile companies complementing empirical and theoretical synthetic work, we believe that this volume will make a significant contribution to the field.

Second, we are pleased to announce the launch of the *Asia Beckons America and Developing Asia Beckons Japan* projects funded by the Japan Foundation Center for Global Partnership (CGP). As the first part of the two-year extension of the *Asia Beckons Europe* project, we are excited about the beginning of this interdisciplinary collaboration of scholars from around the world. Incorporating contributions from Japanese and

European scholars, this project plans to compare American and Japanese firms' strategies and responses to recent changes in the global political economy with their counterparts abroad. We plan to host the first research conference in October 1999 at the Berkeley campus. The second half of this research collaboration is scheduled to be launched next spring at Waseda University.

Third, BASC Director Vinod Aggarwal and fellow Research Affiliates have continued to report BASC research findings on the Asian Crisis, multilateralism and Asia-Pacific regionalism at various academic, business and policy fora. In addition to delivering research and/or policy presentations to trade associations and councils, we have also presented our research at business conferences in China, Sweden, Italy and throughout the U.S. Next year, we plan to launch a large research project that applies our previous research on reconciling multiple institutions to the study of Asia-Pacific regionalism from a comparative viewpoint. We welcome anyone interested in this research topic to contact us for more information.

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Half-Built Dreams

By Barry Eichengreen

The crisis that began in Thailand left Bangkok's skyline studded by unfinished skyscrapers and half-built architects' dreams. One fears that the same fate will now befall that other set of architects seeking to rebuild the international financial system. The dialogue about how to prevent and contain financial crises resembles nothing so much as an open competition for a lavish commission.

Judges of an architectural competition winnow submissions by rejecting those which fail to conform to the site or exceed the engineering capabilities of the builders. Thus, a first step toward developing a consensus on financial reform is to reject grandiose schemes for which there is no political support. However compelling the argument that global financial markets require a global financial regulator, a global bankruptcy court, a global money, and a global central bank, realism requires acknowledging that national governments are not prepared to turn over significant additional powers to a super-IMF. Europe has created a single currency and a European Central Bank only after half a century of hard slogging. It is fantastic to think that this process could be replicated on a global scale in a matter of years.

What remains is a limited, but important agenda. First, there is a need for international financial standards. High capital mobility makes it impossible to fix the international financial system without first fixing the domestic financial systems of countries active on international markets. But neither the IMF nor any other multilateral agency has the resources to micro-manage this process in 182 countries, or to design regulatory institutions that are sensitive to their different economic, cultural and legal traditions. The only practical approach is to develop and adopt international standards of acceptable practice, not just for bank regulation but also for auditing and accounting, corporate governance, and bankruptcy law as well. The idea is that national practices can differ in their particulars, under this approach, but all must satisfy a common set of international standards.

Responsibility for designing standards cannot be delegated to the IMF, which lacks the resources and expertise. The lead must be taken by the private sector: by the Interna-

tional Accounting Standards Committee, the International Federation of Accountants, the International Organization of Supreme Audit Institutions, Committee J of the International Bar Association, and the International Corporate Governance Network. The multilaterals should of course participate in their deliberations. It is important for the Fund to be involved to ensure that it assumes "ownership" of the standards it helps to set.

Promulgating standards is one thing, enforcing them another. Making the markets pay heed will require the IMF to issue blunt assessments of national practice. But lenders having a limited attention span, the IMF will have to reinforce market discipline by offering the carrot of concessionary interest rates on its loans to countries that comply, and by conditioning its programs on steps to bring national practice into conformance.

A second critical area concerns banks and capital flows. Everyone agrees on the need to strengthen banks' risk management and supervisors' oversight and regulation. But the sad truth in many countries is that banks have limited capacity to manage risk and that regulators have limited capacity to supervise their actions. This limited capacity is what defines a financially "less developed" economy. In such countries, capital requirements in theory and capital requirements in practice are two different things, given the inadequacy of auditing and accounting practices. And the political realities in many emerging markets are such that bank capital is rarely written down. Consequently, revising the Basle Capital Standards to key capital requirements to the source of banks' funding as well as the riskiness of their investments is unlikely to prove effective.

In this environment, free access to foreign finance, is incompatible with financial stability. Foreign funding gives banks gambling for redemption and taking on excessive risk an additional way to lever up their bets. Government guarantees for banks regarded as too big to fail encourage foreign investors to provide those funds. As confidence is disturbed, the short maturity of their loans provides these investors the opportunity to flee. Their rush for the exits can bring down not just the banking system but the currency and the economy as well.

This creates an argument for limiting short-term bank borrowing abroad in countries where banks' risk-management practices and regulatory supervision do not suffice. And where banks can circumvent these measures by having the corporations do the borrowing and pass on the proceeds to them, broader measures may be required. Financial stability may have to be buttressed by a Chilean-style tax to limit short-term foreign borrowing by all domestic entities.

The international policy community should become an unambiguous advocate of these measures. While IMF takes a clearer stand, the U.S. Treasury must overcome the "Wall Street complex" and embrace the policy.

A last area where there exists a degree of consensus is on changing the provisions of loan contracts. Avoiding both routine rescues and devastating defaults will require creating a more orderly way of restructuring problem debts. Majority voting and sharing clauses should be added to loan contracts to prevent isolated creditors from resorting to lawsuits, along with collective representation clauses specifying who will speak for the creditors in negotiations. This is the only practical way of creating an environment more conducive to restructuring negotiations.

Unfortunately, this is a process in which no borrower wants to be first, for fear of sending an adverse signal. The IMF will have to make clear that it will lend at more attractive interest rates to countries that issue debt securities with these provisions. U.S. and UK regulators should require the relevant provisions of international bonds admitted to trading on their markets.

Finally, it is important for aspiring architects to draw the right lessons from the Brazilian debacle. One indisputable lesson is the need for the vast majority of emerging markets to move to more flexible exchange rates. Brazil illustrates that, in a world of high capital mobility, political democracies cannot credibly attach priority to the maintenance of pegged exchange rates above all other goals of policy. There may be the occasional counterexample like Argentina, where memories of inflation are so searing, but they will always be the exception. How many more demonstrations do we need that capital mobility, political democracy and pegged exchange rates are incompatible, and that it is the pegged rates that have to give in order to avoid ever more frequent crises?

It is also important to recognize that a

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Joseph Harrison Interview

(continued from page 1)

it is essential that American firms have every policy-level opportunity to compete. Only for the most urgent reasons and when our allies are fully in support – Iraq comes to mind – should the United States engage in economic sanctions against other nations. CCIT opposes most unilateral forms of sanctions that result in self-inflicted trade barriers that damage the reputation and competitiveness of America's exporters.

CCIT strongly believes American business opportunity will increase dramatically when China becomes a WTO member. First, the rules and procedures in China will be committed to writing and applicable to all who wish to do business there. Second, there will be a tremendous reduction in tariffs – with many current tariffs eliminated entirely.

Third, WTO membership will lessen the

can businesses that could directly bring about economic development, and indirectly, improvements in social and political conditions, in such nations.

CCIT believes the Jackson-Vanik amendment, originally designed to make sure Jews were allowed to emigrate from the former Soviet Union, has long outlived its usefulness. It is this amendment which forces Congress to deal annually with the charade of NTR for countries like China and Vietnam (along with a handful of other nations, some of which are truly renegade states, like North Korea and Serbia). To link religious freedom, lack of democracy as we understand the term, threats against neighbors, or even espionage against the U.S., to normal trade status does nothing except allow anti-China politicians a platform to air their ideology.

BASC: Do you see the renewal of China's

“CCIT opposes most unilateral forms of sanctions that result in self-inflicted trade barriers that damage the reputation and competitiveness of America's exporters” — J. Harrison

longstanding issues of being able to do business in China without fear of being subjected to arbitrary decisions that frustrate sunken investments. And, fourth, if we accept the view that “a rising tide lifts all boats,” the expected increase in trade and investment will shortly lead to improved living conditions in China, and to social and political progress there.

The same can be said of Vietnam, which may find its way into the WTO even more quickly than China (which itself should be followed rather swiftly by approval of Taiwan's request for WTO membership). The opportunities for American business of all kinds will improve dramatically in countries that are populated by about one and one-half billion people.

BASC: Does CCIT recommend de-linking trade policy debates from non-trade issues such as human rights, Taiwan relations, espionage and national security, and environmental protection?

Harrison: Withholding “normal trade relation” (NTR, formerly called “most favored nation” or MFN) status from China or Vietnam is a form of unilateral economic sanction, and a huge policy mistake. CCIT completely disagrees with those who believe China or Vietnam should be punished for various social or political misdeeds. We believe denial of NTR really only punishes Ameri-

Normal Trade Relations as an acceptable temporary solution until its accession to the WTO? What are the hidden costs to CCIT members of the annual renewal process?

Harrison: To date, CCIT's efforts have helped convince a majority of the California delegation each year to continue the presidential determination for extension of NTR. However, the annual vote is always a major challenge and is not the right way to address problems in China. Many firms have decided not to offer their products in China until a permanent solution is achieved. Understandably, they don't mind taking economic risk but they find the lack of political reliability (with the U.S. Congress) to be unacceptable.

BASC: What is CCIT's assessment of the obstacles facing China's WTO accession?

Harrison: CCIT's goal is to support the accession of China (and also Vietnam) to the World Trade Organization – the WTO – because it is in the WTO dispute resolution process that we will gain substantial leverage over the world's largest nation. Even if we lose some trade dispute cases over time, China will have been compelled through its membership in WTO to play by a set of transparent rules, which is not presently the case. China's membership will also eliminate the annual vote on extension of NTR, because Congress will have to agree to permanent NTR before China comes into the WTO.

CCIT believes the bilateral negotiations are close to completion and that our two governments could make an announcement prior to the WTO ministerial conference scheduled for the end of November 1999 in Seattle. Negotiations with China are always fragile – China called them off when we bombed their embassy in Belgrade – and a commercially satisfactory conclusion may not come in time either for Seattle or for the Congress to consider the matter this year, but we are very close to a deal.

China has always provoked visceral feelings with both the public and the Congress – a tremendous outcry ensued when evidence of Chinese espionage at Los Alamos came to light – and the PRC government is anything but adept at lobbying. The Taiwanese, the Japanese, Koreans and the Europeans all have sophisticated lobbying programs in Washington, but the PRC is far behind the curve. While CCIT does indeed work closely with the San Francisco consulate of the PRC, our work on NTR in Washington is coordinated through U.S. based organizations such as the U.S.-China Business Council and The Business Roundtable.

BASC: Other trade related CCIT priorities include the restoration of Fast Track negotiating authority to the President, and the prevention of unilateral economic sanctions. What is the status of your initiatives in these two areas?

Harrison: The stars are not properly aligned for the Fast Track measure to pass during this Congress: there is fierce opposition from labor, which fears loss of jobs through trade agreements. The Administration does not wish to offend labor, even though the President has stated his hope that fast track will be re-enacted. So, the White House is hardly leading the way. Meanwhile, the Republican-led Congress is reluctant to give this President additional authority, and indeed some Congressional Democrats have the same view. So, fast track is dead until after the presidential election, at least.

CCIT also opposes unilateral economic sanctions in most situations; we support a strong trade adjustment assistance program to offset concerns about job losses based on trade agreements; we support programs to increase trade with the Caribbean and with Africa; we support continuation of the Generalized System of Preferences (GSP) as a duty-free initiative for many imports from developing nations; and we believe that legislation on export controls for national security purposes must be realistic in light of rapidly de-

U.S.-China Relations Loom Large In Post-Crisis APEC Meetings

By Niklas Ponnert

Since Asia's economic meltdown and the financial turbulence that swept world markets in 1997 and 1998, the creation of a new financial architecture for the world has been high on the international agenda. While several Asian countries, most notably Malaysia, have called for stringent regulations on short-term capital flows to prevent similar crises in the future, the U. S. and most European countries have been more reluctant to endorse these "protectionist-type" reform. Thus, the scene was set for confrontation when APEC finance ministers met in Malaysia at the end of May 1999 to discuss the new international financial architecture and the role of APEC. Malaysian Finance Minister Daim Zainuddin set the tone when he opened the meeting declaring that APEC must help emerging economies to protect themselves against uncertainties caused by global capital flows. As expected, Malaysia failed to coax APEC members to endorse the use of capital controls in times of crisis.

APEC ministers did agree, however, on a joint statement that stressed how emerging economies can forestall financial volatility

through (1) sound macroeconomic policy (2) greater transparency and (3) tighter supervision of financial institutions.

At the end of June, APEC trade ministers met in New Zealand to continue the discussion and coordinate their positions for the millennium round of global trade talks which are expected to be launched by WTO later this year. Due to the U.S.'s failure to endorse China's WTO accession, the bombing of the Chinese embassy earlier this year, and U.S. accusation of Chinese espionage, the meeting was overshadowed by a tense relationship between the U.S. and China.

On the final day of the talks, a fierce exchange of accusations between Long Yongtu, China's vice-minister for foreign trade, and Richard Fisher, deputy U. S. trade representative, erupted over who was to be blamed for the current standoff on China's acceptance into the WTO. While Mr. Fisher stated that the U. S. was prepared to restart negotiations and that the "the ball was in China's court." Mr. Long demanded a convincing explanation for the bombing before negotiations could resume. Against the backdrop of strained re-

lations between the U. S. and China, APEC ministers renewed their commitment to strengthening financial institutions and agreed that industrial goods will be included in WTO's global trade talks later this fall. Commenting on the outcome, Lockwood Smith, New Zealand's trade minister, declared: "No major body, until now, has said: 'We now agree to an industrial negotiations.'" APEC trade ministers also agreed to refer current negotiations on tariff elimination in six sectors — food, rubber, fertilizer, civil aircraft and car industries — to the WTO.

Coordination of national policies aimed at strengthening APEC members' financial systems and positions for the upcoming WTO millennium round were supposed to be the key areas for discussion when APEC Ministers met in Auckland, New Zealand, on September 10-12 for APEC's 11th annual Ministerial Meeting. APEC ministers made a critical advance in APEC's liberalization agenda by pledging to push for the reduction of agricultural export subsidies. Yet the U. S. failed to persuade other APEC members that a new trade round should aim for an "early harvest" of sectoral liberalization agreements. Instead, issues outside the official agenda dominated the meeting, in particular the escalating violence in East Timor, which was a key topic in several bilateral talks. Finally, resolved to put aside political issues that plagued U. S.-China relations this spring, Bill Clinton and Jiang Zemin met to rekindle negotiations on China's WTO accession. ■

Harrison Interview, (continued from page 4)

veloping technological advance, much of developed here in California by CCIT member firms.

BASC: What specific strategies is CCIT planning to take to promote consciousness about and healthy debates over trade issues in the upcoming election year?

Harrison: Our biggest challenge is the negative perception of trade on the part of the American people, a view that is unfortunately transferred to their elected representatives. CCIT's existence is based on the need for California agriculture and industry to follow sound international trade policies in an increasingly interdependent world. Globalization is far more than a concept; it is an everyday reality in which those not competitive (whether because of corporate problems or because of inward looking and inadequate trade policies of their governments) will fall by the global wayside. ●

Half Built Dreams, (continued from page 3)

new "contingent credit facility" for the IMF, like that agreed to by the Executive Board this spring, is unlikely to make the world a significantly safer place. Brazil is a blunt reminder of how few countries have the kind of unquestionably strong policies that might permit the IMF to extend unconditional credits in advance and of how small the Fund's resources remain relative to those of the market.

Nor can the IMF be transformed into a true international lender of last resort. Compared to a national central bank dealing with troubled financial institution, it has less ability to force corrective action on its members. Inevitably this creates moral hazard and raises questions about whether the IMF will get its money back. This is why the Fund is endowed with fewer resources, why it lends less freely, and why it must wait for evidence that policy reforms are in train before releasing each additional bit of finance. It is simply not fea-

sible to ask the IMF to follow Bagehot's rule of lending freely at a penalty rate.

Blueprints for reforming the international financial architecture continue to flow from the drawing boards of official committees and independent scholars. Most of their ideas are fodder for futurists, not practical guides for policy makers. Someone should tell them that the time for this is over. The task now is to move from abstract schemes to concrete action. This means discarding unrealistic proposals and building a consensus around those that remain.

Barry Eichengreen is Professor of Economics and Political Science at the University of California, Berkeley, and a BASC Faculty Associate. He recently authored *Toward a New International Financial Architecture: A Practical Post-Asia Agenda* (Institute for International Economics). This is a revised and updated version of a "Personal View" that appeared in the *Financial Times* in February 1999. ●

A BASC Digest of the 25th Annual Conference of the Pacific Forum for Trade and Development (PAFTAD)

PAFTAD is an informal private academic conference series which originated in 1968, with the goal of promoting policy-oriented research and discussion on Asia Pacific economic issues. It has served as an authoritative source of analysis on APEC. The 25th annual conference was held in Osaka in June 1999. The following is a list of papers presented at the conference; they are available in abstract form in *APEC: The Challenges and Tasks for the Twenty First Century*, published by Kansai Economic Research Center, Japan (1999). A volume containing all papers, edited by Ippei Yamazawa, is forthcoming.

"APEC Ideas and Reality: History and Prospects" by *Ross Garnaut*

"APEC's Progress in Trade and Investment Liberalization and Facilitation" by *Ippei Yamazawa* and *Shujiro Urata*

"APEC and the Millennium Round" by *Peter A. Petri*

"APEC's Relationship with its Sub-Regional Trading Arrangement" by *Mahani Zainal-Abidin*

"Ecotech at the Heart of APEC: Capacity Building in the Asia Pacific" by *Andrew Elek* and *Hadi Soesastro*

"The Competition and Deregulation Policy Areas in APEC" by *Kerrin M. Vaultier* and *P.J. Lloyd*

"Macroeconomic Interdependence in the PAEC Region" by *Akira Kohsaka*

"APEC as an International Institution" by *Vinod K. Aggarwal* and *Charles E. Morrison*

"Environmental Protection Policy in APEC: Application of CGE Modeling to Analysis of Environmental Problems" by *Kanemi Ban*

"Liberalization of Manufacturing Sectors: The Automobile Industry in China" by *Ralph W. Huenemann*

"Malaysia's Telecommunication Services: Liberalization within APEC" by *Sieh Lee Mei Ling* and *Lok Wai Heng*

"Liberalization of the Rice Sector in Japan, Korea, and Taiwan" by *Tsu-Tan Fu*

APEC Liberalization and Subregional Organizations

MAHANIZAINAL-ABIDIN and Ross Garnaut separately address the fundamental question of whether sub-regional trading arrangements (SRTA) have detracted from open regionalism or whether they constitute building blocks toward an open multilateral trading system. The three SRTAs in APEC are: the ASEAN Free Trade Area (AFTA), the Australian-New Zealand Closer Economic Relation Trade Arrangement (ANZCERTA), and the North American Free Trade Agreement (NAFTA). The Bogor Declaration called for free trade among the SRTA members, and for SRTA consistency with the APEC goals of open trade and investment by 2010/2020. However, if trade diversion is the dominant effect, it is possible that these goals may come into conflict. Both Zainal-Abidin and Garnaut conclude that the potential conflict has not become a problem, but their reasons are in conflict. While Zainal-Abidin argues that SRTAs have actually accelerated liberalization ahead of the APEC process, Garnaut claims

that it is the APEC process that influences liberalization in individual countries, which at the same time, constrains the tendency toward discriminatory East Asian or Western Pacific trading blocs.

Zainal-Abidin finds that SRTAs have been important building blocks for the APEC process because they have outpaced APEC in trade and investment liberalization, and have maintained consistency with the WTO and in some cases extended benefits to nonmembers. For example, AFTA has accelerated the timetable for tariff reduction from the original 2005 to 2000. It has gone further than APEC to deepen the institutional basis of its trade liberalization efforts, most notably in the establishment of a Dispute Settlement Mechanism that is patterned after the WTO DSM and is based on simple majority rather than consensus. This is a significant precedent for rule-making in ASEAN. In general, SRTA members have become more trade-oriented, and trade with countries outside their own groupings has also risen. The Asian crisis brought an expected drop in imports in SRTA countries, but the threat of a tariff war did not materialize as countries generally maintained their liberal trade policies. In contrast, Garnaut is more pessimistic of APEC's continuing role in constraining discriminatory trading blocs, pointing to the collapse of the EVSL negotiation as a major disillusionment.

Zainal-Abidin suggests that the next initiatives of SRTAs to promote the APEC process should include: full implementation of IAPs by member countries, development of investment codes, expansion of sectoral liberalization, extension of SRTA membership to non-APEC countries, and creation of inter-SRTAs link-ups such as dialogues on trade facilitation matters and environmental standards. While these proposals make sense, they neglect to consider the feasibility issues arising from the broader political context and specific institutional capacities of APEC and SRTAs. Garnaut points to the political barriers arising from Japan's catering of domestic sectoral protectionist interests, from U.S. insistence on reciprocity in trade policy, and problems in Sino-American relations and China's exclusion from the WTO.

APEC's Role in the Millennium Round

PETER PETRI suggests some practical roles for APEC in the upcoming Millennium Round of WTO negotiation. While APEC has played a catalytic role in the Uruguay Round and subsequent liberalization momentum, it now faces a different bargaining arena arising from the complicated context of strengthened FTAs and emerging transregional economic cooperation initiatives (e.g. FTAA, ASEM, Mercusor). In addition, APEC spans the divides of major issues such as the developing countries' interests in liberalizing agriculture and services versus the developed countries' focus on implementing provisions of the Uruguay Round. Experience from the Uruguay Round further suggests that if the new round moves quickly in pace and results, then regional approaches may be invigorated through spillover effects of the WTO process. In contrast, if the new round gets bogged down, regional groupings could represent partial alternatives for addressing particular issues.

In light of regional groupings' stake in the Millennium Round,
Continued on page 7

***Toward a New International Financial Architecture
A Practical Post-Asian Agenda***by **Barry Eichengreen***Washington, D.C.: Institute for International Economics, 1999.*Reviewed by **Kun-Chin Lin**

BARRY EICHENGREEN'S new study advances current debate over the reform of the international financial architecture. Reviewing the plethora of proposals for institutional reform coming from governmental, IGO, and private sources, Eichengreen concludes that they are so politically impractical as to have little chance of implementation. Instead, he argues that the inherent instabilities of international financial liberalization can best be addressed by erecting a financial safety net that takes into account the associated moral hazard.

Eichengreen identifies the international financial architecture as possessing the three functions of crisis prediction, crisis prevention, and crisis management – all of which have been demonstrably weak in dealing with the Asia crisis. He argues that the international policy community should not turn its energy away from early-warning exercises which have little predictive power and tend to induce complacency. In the area of prevention, he suggests that the IMF could promote domestic financial stability by insisting on institutional reforms including rigorous disclosure requirements and effective supervision of the borrowing behaviors of banks and corporations, adoption of internationally recognized auditing and accounting practices, and the extension of creditor rights and investor protection. In the area of crisis management, Eichengreen emphasizes the need to make international debt restructuring a viable alternative to massive rescue packages. He recommends adding clauses to loan contracts to facilitate flexible negotiation, creating a standing committee of creditors to provide better communication with the sovereign borrowers, and strengthening national bankruptcy statutes in dealing with corporate and bank defaults. In this process, Eichengreen calls for the IMF to “become less of a fireman and more of a policeman,” in enforcing countries’ conformance to international standards and informing the markets of individual countries’ progress.

Petri suggests the following four models for APEC’s role:

- **APEC as Cheerleader:** As a vocal supporter of the multilateral process, APEC could apply public and private pressures to members through its consultative process, and adapt new CAP and IAP processes to generate Millennium Round offers. Petri sees this as APEC’s most likely role.
- **APEC as Laboratory:** More ambitiously, APEC could carve out a leadership role by creating deliverable solutions and establishing liaison with other key players in select areas of common interests. Some appropriate issues include trade facilitation, non-binding investment principles, and food security policy.
- **APEC as Coalition:** While APEC lacks the convergence of interests such as the Cairns Group, it could encourage its subgroups to develop joint bargaining objectives, publicize positions, and reach out to non-members with shared interests.
- **APEC as Competitor:** Though unlikely under the post-Asian crisis difficulties, this scenario could occur if APEC decides to aggressively pursue the Bogor goals by adopting preferential free trade initiatives, or if it advertises itself as an alternative venue for liberalization.

Potential Areas for Renewed Institution Building

ANDREW ELEK and Hadi Soesastro argue that APEC should pay more attention to promoting various forms of economic cooperation among its members in order to strengthen the human, technological, and institutional capacity of their economies. In particular, they call for renewed efforts in ECOTECH –APEC’s program for economic and technical cooperation. They believe that it can form the backbone of a comprehensive strategy for regional economic growth and development in future.

The Asian crisis called into question the commonly held view that APEC should be primarily a trade forum focusing on reducing barriers for trade and investment. Such an approach, they argue, was appropriate when Asia Pacific economies boomed and the benefits of voluntarily trade liberalization could be easily identified. But APEC’s difficulties in promoting its liberalization agenda since the crisis have underscored APEC’s need to develop new strategies.

Some have suggested that APEC should

develop into a WTO-like organization with mandatory procedures and binding agreements. To the contrary, Elek and Soesastro envisage APEC heading in a different direction. They argue that because APEC does not have a comparative organizational advantage over WTO as a forum for traditional trade negotiations, APEC should instead develop a new model of policy cooperation with ECOTECH at its core.

At present, ECOTECH has almost 300 ongoing programs in eleven policy areas, stretching from cooperation on telecommunication and transportation to energy-cooperation and economic infrastructure, aimed at assisting APEC policy makers in designing, implementing, and administering more efficient growth policies. In the short term, argue Elk and Soesastro, ECOTECH can help to speed up the recovery process for the Asian economies by strengthening domestic and international finance markets, facilitating trade and investment, and liberalizing traditional border barriers to trade. In the long term, an ongoing dialogue among Asia-Pacific countries within the ECOTECH framework can play an important role in strengthening the human resource base and upgrading the technological and institutional capacity. This would establish the foundation for future economic growth and competitiveness.

Competition and deregulation are two of the policy areas mentioned by Elk and Soesastro where more cooperation could yield substantial benefits for all APEC members. APEC has already taken some steps to deepen cooperation in these policy areas in adopting the Osaka Action Plan on Competition Policy of 1995 and the 1998 Collective Action Plan for Deregulation that called for the setting of non-binding APEC guidelines on domestic regulation.

M. Vautier and P.J. Lloyd evaluate this effort in some depth. They contend that there are still significant differences among APEC economies in regards to how far they have come in implementing well functioning regimes on competition and deregulation. This should not be a surprise, however, since APEC consists of a set of economically diverse economies. What is more alarming in their view is that there still is a lack of consensus among APEC members on the central goals of competition and deregulation policies. According to their review of Individual action Plans (IAP’s), there is indeed a

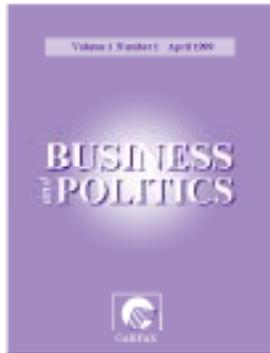
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From Stephen Rudman,
Director of External Relations

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A BASC DIGEST OF PAFTAD

(continued from page 7)

clear, albeit gradual, convergence of attitudes toward deregulation and efficiency. But as far as competition policies are concerned, much is left to be done. While some IAP's focus on efficiency and consumer welfare, others stress "fair competition" and support for small and medium size companies as priorities —which often translates into nothing but direct protection of producers.

Vautier and Lloyd warn that discrepancy in attitudes and goals can translate into severe policy fragmentation within APEC. Thus, they recommend that APEC steps up its efforts to develop and promote a "comprehensive, coherent and transparent approach to policy development and policy instruments for promoting competition in global markets." In this process, Vautier and Lloyd believe that it is important that APEC does not over-emphasize what should be the scope of competition and deregulation policies. For them, what should and should not be included in competition and deregulation policies is the central issue of concern. Even more important in their view is the development of a broad understanding of the links between competition, efficiency, welfare and competitiveness among its members. In their words, this will create a "convergence of objectives and policy direction, not rules."

Realism also figures prominently in Vinod K. Aggarwal and Charles Morrison's recommendations for the next steps in APEC institutional development. They argue that while APEC should continue to avoid bureaucracy, the Secretariat needs strengthening along the lines of creating longer term positions and developing in-house analytical capabilities, in order to improve agenda-setting and clarify priorities. It may be time for a new Eminent Persons Group to help APEC sort through these tasks. •

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