

THIRD JEJU PEACE FORUM

by Vivek Narayanadas
BASC Research Assistant

WITH THE OBJECTIVE OF “Building a Northeast Asian Community: Towards Peace and Prosperity,” the Third Jeju Peace Forum convened on Jeju Island in the Republic of Korea on June 9-11, 2005. Hosted by the East Asia Foundation, the Jeju Provincial Government, Yonsei University, and Jeju National University, the Forum featured several notable speakers including former South Korean President Kim Dae-Jung, former Japanese Prime Minister Tomiichi Murayama, and former Chinese Vice Premier Qian Qichen.

Present at the forum were over 200 delegates, including representatives from government, business, and academia, who gathered to review political as well as economic developments in the area, and to discuss the possibility of setting up a Northeast Asian Community.

The conference also featured a number of roundtables in order to create more focused discussion about specific issues in Northeast Asia including the possible viability of a Northeast Asia Free Trade Agreement (NEAFTA), the problems with energy cooperation in the region, and a new multilateral framework for cooperation with North Korea.



BASC Director Vinod K. Aggarwal presented his research to the Free Trade Areas Panel, based on his own previous and current work with BASC Project Director Min Gyo Koo. Prof. Aggarwal began by presenting a classification of a number of existing trade governance measures, with an eye to identifying the origins and evolution of such measures globally as well as the implications of these developments for Northeast Asia. Building upon his recently published work with Min Gyo Koo entitled “Beyond Network Power?” which appears in the June 2005 issue of *Pacific Review*, Aggarwal presented a series of “paths” that trace routes from bilateral regionalism, to unilateral regionalism, to unilateral trans- and inter-regionalism. These paths suggest that the possibility of a variety of different outcomes

Article continued on page 5

APEC UPDATE

by Wendy Qi
BASC Research Assistant

WITH THIS YEAR'S THEME OF “Towards One Community: Meet the Challenge, Make the Change,” the APEC community will certainly have its fair share of challenges, particularly in dealing with the North Korean nuclear crisis. Moreover, the current year will be a pivotal year for APEC in achieving its visions, as it marks the midpoint between the establishment of the trade cooperative in 1989 and its 2020 Bogor goals.

As the host country, South Korea will have a significant say in determining the key issues discussed at this year's meetings. Aside from

the economic goals APEC is expected to achieve, South Korea hopes this year's summit will serve as a venue for global powers to continue discussing the Korean situation. For the Korean peninsula, 2005 is also a milestone year, marking the 60th anniversary of independence and the five-year anniversary of the June 15th Declaration, in which the North and South agreed to strive for a peaceful unification.

Although security is a relatively new addition to APEC's areas of emphasis, having been introduced in the aftermath of September 11, it has quickly evolved to become one of the most discussed issues in APEC. This can be attributed to the belief that well-established security measures would lead to steady economic growth, especially in respect to the growing trends in globalization. Since North Korea's surprising

acknowledgement of its new nuclear program in October 2002, the nuclear issue has been a growing concern for the global community, and rising tensions in U.S.-Korean relations have only exacerbated the situation. The ambitious Six-Party Talks to resolve the second North Korean nuclear crisis has gone nowhere. While recently North Korea has promised to re-enter the Six-Party negotiations, to be held in Beijing in the last week of July, it remains to be seen whether or not an agreement can be reached.

President Bush has emphasized the need for North Korea to take an active part in the Six-Party talks, and has threatened to impose further international isolation if it fails to comply. Although President Roh Moo Hyun of South Korea has asked for some leniency from

Article continued on page 2

BASC NEWS

Published by the Berkeley Asia-Pacific Economic Cooperation Study Center (BASC)

802 Barrows Hall #1970
University of California
Berkeley, CA 94720-1970

Tel: 510-643-1071

Fax: 510-643-1746

basc@globetrotter.berkeley.edu
<http://socrates.berkeley.edu/~basc>

BASC STAFF

Vinod K. Aggarwal
Director

Min Gyo Koo
East Asia Project Director

Elaine Kwei
East Asia Project Director

Sean Fahle
Research Assistant

Christine Kao
Research Assistant

Vivek Narayanadas
Research Assistant

Wendy Qi
Research Assistant

THIRD JEJU PEACE FORUM.....1
Vivek Narayanadas, BASC Research Assistant

APEC UPDATE.....1
Wendy Qi, BASC Research Assistant

DIRECTOR'S NOTES.....2

BASC SPOTLIGHT.....3
Christine Kao, BASC Research Assistant

BASC PROJECTS.....4
BASC Staff

BASC BOOK REVIEW.....4
Sean Fahle, BASC Research Assistant

DIRECTOR'S NOTES

WELCOME to the 2005 issue of BASC News! The range of analyses and viewpoints presented in this issue indicate that the future of APEC rests largely on how to keep the growing demand for sub-regional preferential trade arrangements, on the one hand, and the thorny security issues in the Korean peninsula and the Taiwan Strait, on the other, nested within the institution of APEC.

In the cover feature of this issue, Vivek Narayanadas reports on the Third Jeju Peace Forum, which convened on Jeju Island in the Republic of Korea on June 9-11, 2005. The Forum featured several notable politicians and government officials. I was asked to present my recent work based on our BASC projects and work that I have been doing with Min Gyo Koo. In particular, I presented a series of "paths" that trace routes from bilateral regionalism, to minilateral regionalism, to minilateral trans- and inter-regionalism. These paths suggest that the possibility of a variety of different outcomes for the strengthening and weakening of APEC, ASEM, and the WTO will depend heavily on how the institutional bargaining game evolves in Northeast Asia and several other regions. By looking at how such arrangements have developed in other regions of the world and the key driving factors, I believe we can gain insight into the likely path of preferential trade agreements in Northeast Asia, and in particular to the possibility of the formation of a Northeast Asian Free Trade Agreement (NEAFTA). Please consult our website for publications on this topic.

Our *BASC Spotlight* in this issue falls on Taiwan. Christine Kao analyzes the challenge and opportunity posed by China to Taiwan. She notes that China's moves with respect to Taiwan can be seen as a series of attempts to delegitimize the island in the eyes of the inter-

national community through economic and diplomatic isolation. China, Taiwan, and the U.S. all claim to oppose any unilateral action that would alter the current status quo whose definition varies depending on the government. This produces a dangerous situation, because they interpret the status quo in different ways. In deciding how to handle its relationship with China, Taiwan must consider the growing importance of China as an economic power. Thus, Christine concludes that it is doubtful whether nationalist sentiment will overwhelm economic pragmatism.

In our *APEC Update*, Wendy Qi reviews the upcoming APEC Summit Meetings to be held in Busan, South Korea, in November 2005, with a special attention to the North Korean nuclear crisis within the context of APEC. South Korea hopes that this year's summit will provide a venue for global powers to continue discussing the Korean situation. Yet Wendy predicts that that, given the current status of APEC, it might not be an easy task and that, with rising security tensions in the Northeast Asian region and the economic interests that APEC is based upon, few new developments may emerge from South Korea's attempts in APEC this year.

Finally, our *BASC Book Review* by Sean Fahle discusses an edited volume by Jiro Okamoto of the Institute of Developing Economies in Japan entitled *Trade Liberalization and APEC*. Okamoto begins by clearly arguing that "the EVSL cannot avoid being labeled a 'failure.'" The reasons for the failure, however, are much less evident, and *Trade Liberalization and APEC* by Okamoto and his collaborators focuses on pinpointing these factors, seeking to fill the gap in the APEC literature from the perspective of the policy-making process.

Happy reading!

APEC UPDATE

(Continued from page 1)

the United States in making some of the concessions the North has asked for, President Bush stands by his opinion, stating that he would not "reward" North Korean bullying. U.S. Secretary of State Condoleezza Rice's recent state-

ment labeling North Korea as one of the world's "outposts of tyranny" has only worsened the situation, making it much harder for South Korea and the rest of the global community to find a peaceful resolution to the situation.

The Japanese continue to emphasize the

Article continued on page 5

CRITICAL RESPONSE

Taiwan and the Challenge of a Chinese Powerhouse

BASC SPOTLIGHT

by Christine Kao
BASC Research Assistant

AS A MATURING CHINA EMERGES onto the world stage, perhaps no other region is more vulnerable to the changes in economic climate than the hotly contested island, Taiwan. In recent months, escalating tensions concerning Taiwanese sovereignty have chilled a decade of relative calm and promising economic ties across the Taiwan Strait. In a clear warning against the island's growing separatist consciousness, China passed an anti-secession law in March that authorized the deployment of "non-peaceful" military force to counter any strides towards formalizing an independent Taiwan. In considering a response to this provocation, the Taiwanese must reconsider their national interests in the context of their own economic and political condition.

Taiwan has actively increased its foreign investment in Mainland China but increasingly faces a number of major challenges to its economic strategy. Taiwan's economy has matured, with enough capital to seek higher returns than those found on the resource-poor island. But while foreign investment flourished in the 1990s, the manufacturing and low wage labor that once marked the Taiwanese economic landscape have slowly disappeared as more and more production has been outsourced to Mainland China. Taiwan has suffered a loss of comparative advantage for inexpensive labor. Similar to the U.S., Taiwan must learn to rely on a capital- and technology-driven economy while maintaining a competitive global edge through the continuous improvement of technology. In order to compete with other developed nations, intellectual property, an issue that the Taiwanese have traditionally skirted, will have to be reexamined as the country becomes more reliant on the intellectual economy of a white-collar work

force.

Outward investment is inevitable with a maturing economy. For the private and commercial sectors in Taiwan, outward investment has often meant the relocation of production to China. Since the early 1990s, Taiwanese busi-

But while foreign investment flourished in the 1990s, the manufacturing and low wage labor that once marked the Taiwanese economic landscape have slowly disappeared

nesses have invested more than \$100 billion in China. Despite fears that industrial cooperation with China would damage Taiwanese companies, reality has shown that China, with the help of Taiwan and not to the island's harm, has become the top manufacturing base for IT products. Due to this, the "patience over haste" policy for Mainland investment adopted by the Taiwanese government has left them at odds with the commercial and industrial sectors. This conflict of interests has spilled over into the security scene, as, in the latest conflict, many Taiwanese businesses were "strongly urged" to consider the consequences of any public pronouncement. Clearly, government and industry need to work together to reach a consensus that balances national security with economic development.

The proportion of economically productive people in Taiwan has been shrinking, as the number of people over 65 continues to increase (accounting for 7.5 percent of the island's total population). Despite an overall population increase, the percentage of people under age 18 has been decreasing. Taiwan is likely to face a situation where a large majority of dependent people relies on a minority.

More conservative Taiwanese are pressing

closer to the non-separatist Kuomintang (KMT), which has traditionally focused on fostering business development and trade. After a recent visit to China, party leader Lien Chan has returned to Taiwan urging the Taiwanese to grasp the opportunity offered by China's remarkable economic growth.

A potential Taiwan Strait conflict has wide-ranging global effects that could catalyze already heightened hostility in the region. As Taiwan's main provider of moral and military support, the U.S. would be placed in pointed opposition to China, another nuclear power. Japan, from where the U.S. would launch any military bid to defend Taiwan, may find itself drawn into the conflict as well. This would, of course, seriously exacerbate already soured relations with China, where a recent outbreak of anti-Japanese nationalist fervor has clogged diplomatic airwaves between the two countries. As an economic powerhouse that now faces a challenge in the region, Japan has been sharply checked by Chinese nationalists and must increasingly proceed cautiously in asserting its interests.

China's moves with respect to Taiwan can be seen as a series of attempts to delegitimize the island in the eyes of the international community through economic and diplomatic isolation. Taipei claims that the anti-secession law is a pretext for a military attack, but Beijing maintains that it is purely a symbolic act to reinforce the current status quo. China, Taiwan, and the U.S. all claim to oppose any unilateral action that would alter the current status quo whose definition varies depending on the government. This produces a dangerous situation, considering that they interpret the status quo in very different ways. In deciding how to handle its relationship with China, Taiwan must consider the growing importance of China as an economic power. In light of this, it is doubtful whether nationalist sentiment will overwhelm economic pragmatism.

BASC BOOK REVIEW

by Sean Fahle

BASC Research Assistant

Trade Liberalization and APEC

Edited by Jiro Okamoto (New York, NY: Routledge) 2004.



AT THE MANILA MEETING OF ECONOMIC LEADERS in November 1996, pro-liberalization members of APEC expressed frustration with the framework's inability to extend liberalization obligations beyond those outlined in the Uruguay Round of the WTO. In this context, the Early Voluntary Sectoral Liberalization (EVSL) initiative was proposed in order to expedite the attainment of APEC's goal of 'free and

open trade and investment' in the region. Within two years, however, it became evident that the EVSL consultations were doomed.

In retrospect, Jiro Okamoto, Senior Research Fellow at the Institute of Developing Economies in Japan, does not hesitate in arguing that "the EVSL cannot avoid being labeled a 'failure.'" The reasons for the failure, however, are much less evident, and *Trade Liberalization and APEC* by Okamoto and his collaborators focuses on these factors, seeking to fill the gap in the APEC literature.

Their analysis is conducted in three parts. The first chapter in Part I compares the historical and institutional aspects of APEC and WTO. Chapter two provides the history of the development of EVSL consultations. Chapter three introduces the analytical framework: a two level game model with extensions. Part II is a case study section, consisting of chapters individually addressing Japan, the U.S., Australia, Korea, Thailand, and Indonesia. In the final section, Okamoto uses the analytical framework to compare case studies and answer research questions pertaining to the failure of the EVSL consultations.

To determine precisely why EVSL consultations failed, Okamoto considers EVSL policy-making processes. He concludes that, for sev-

eral reasons, winsets – defined as the range of acceptable agreements – were generally small, diversified, and heterogeneous in structure. Okamoto also argues that perceptions of costs of no-agreement were low, and the depth of the APEC issue was limited for most members.

Okamoto stresses that APEC's principles of voluntarism and open regionalism, though they were crucial in attracting ASEAN countries during APEC's formation, became an obstacle to critical mass formation and concrete liberalization measures due to their vagueness and ambiguity.

Okamoto concludes with some implications of this study for the future of APEC. The analysis suggests the need for two regional powers – Japan and the US – to participate, and it suggests that critical mass formation is only possible where it concerns subjects on which both regional powers agree. Okamoto predicts that renewed growth may again make APEC a policy priority generating a resurgence of liberalization efforts, but he finds that there is little scope for APEC to pursue liberalization independent from the WTO due to the nonbinding nature of its agreements.

One shortcoming of this study is its failure

Article continued on page 5

BASC PROJECTS

BASC has conducted a number of original research projects, focusing on the international political economy of the Asia-Pacific region and Europe. Recently, we launched a new research project on the emerging institutional architecture of trade and security in Asia. Our project on EU and U.S. policy in world trade and security relations remains on track. And the final product of our project on bilateral trade agreements in the Asia-Pacific will be published this fall.

With generous support from the Japan Foundation Center for Global Partnership (CGP), *Asia's New Institutional Architecture* examines whether and to what extent regional and interregional mechanisms can better institutionalize the increasing complexity of economic and security ties among the nations in Northeast, Southeast, and South Asia. As the international state system undergoes dramatic changes in

both security and trade relations in the wake of the end of the Cold War, the Asian financial crisis, and the attack of 9-11, this question is now uppermost in the minds of both academics and policymakers. We believe that an academically informed approach to the links between trade and security institutions and issues, guided by input from civil society groups and government officials, will give us a unique perspective on the types of institutional solutions that may be feasible in Asia. The first conference will be held in Berkeley, California on December 9-10, 2005 and the second conference is scheduled in Tokyo, Japan in fall 2006. We are also undertaking a collaborative project focusing on Northeast Asia's institutional architecture with a grant from the East Asia Foundation.

The *New Bipolarity: EU and U.S. Policy in World Trade and Security Relations* project, funded by the Swedish Institute for European Policy Studies (SIEPS), has explored how the broad organization of the international political

economy affects key economic actors in the EU and the U.S., and how their inclination to cooperate or compete shapes the bigger picture. This research has paid specific attention to international security relations and the arms trade, which is dominated by European and American firms who have been both competing and cooperating in international marketplaces, to shed light both on how economic actors behave in this new bipolar era and on the issues that governments face in managing the political-economic arena in which they interact. Our next conference in this project will be held on October 21, 2005 in Berkeley.

The *Asia-Pacific Bilateral Trade* project, funded by CGP, has been successfully concluded. Our findings about the underlying causes of various APEC countries' embrace of the bilateralism, as well as its policy implications for both APEC countries themselves and the broader international trading system, will be published as a book by Routledge in fall 2005.

THIRD JEJU FORUM

(Continued from page 1)

for the strengthening and weakening of APEC, ASEM, and the WTO will depend heavily on how the institutional bargaining game plays out in individual countries. Aggarwal noted that such paths could serve as models for how the rise of preferential trade agreements is likely to play out in Northeast Asia, with special attention paid to the possibility of the formation of NEAFTA. He proceeded to demonstrate how a strong and broad NEAFTA could in turn affect U.S. and EU trade strategies in East Asia. Aggarwal concluded by focusing on three factors that are of particular importance for the creation of a NEAFTA and its positive impact on broad-based trade institutions: economic complementarity between participating countries; the Sino-Japanese rivalry; and the balance of interests between the U.S. and the EU. In view of these factors, and the scenarios he presented, the path to freer trade in Northeast Asia, East Asia, and the world system appears to be an increasingly bumpy one.

Other presentations on the FTA panel included an analysis by Dr. Lee Chang Jae of the Korean Institute for International Economic Policy (KIEP) that proposed three different paths to a NEAFTA—through an East Asian Summit, through bilateral FTA's, and through a fusion of the AFTA and a newly created FTA that would include China, Korea, and Japan. Associate Senior Fellow at the Nordic Institute of Asian Studies Markku Heiskanen focused on Europe as an example for Northeast Asian

integration.

The Jeju Forum concluded with a public declaration about the possibility of a North-east Asian Community. The declaration stated that despite many opportunities for integration and community-building, there remained several daunting challenges—highlighting the possibility of a nuclear North Korea and new patterns of economic competition. Deciding that the surest way to establish sustainable peace and common prosperity would be through cooperation and integration, the Forum agreed that a key part of this integration will be played out on the economic field, with integration being made possible by regional FTA's, improved banking systems, and enhanced logistical support. Beyond the economic front, participants also made clear that this integration would include multilateral security cooperation.

Another key issue raised by the Jeju declaration was that any sort of community building requires more than political and economic cooperation; it requires a sense of regional identity among all of its citizens. Thus, the forum declared its support for the cultivation of “intra-regional human networks.” Finally, plans for the “Jeju Peace Institute”—a think tank to be built on the island in the upcoming years that will focus on Northeast Asian peace and community building—were made public. Participants at the Third Jeju Peace Forum believe that they have made concrete steps towards the creating a unified Northeast Asian Community. The forum will continue to address the issue of how such a community ought to be built, and set the pieces in motion to allow these questions to be studied in greater detail in the future.

BUSINESS AND POLITICS

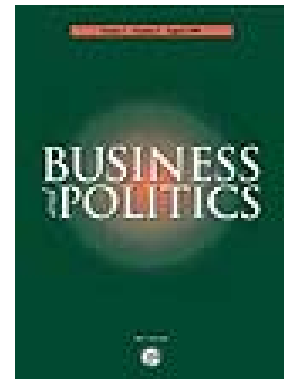
THIS LEADING INTERNATIONAL JOURNAL explores the strategic space in which governments and firms interact. It focuses on two areas: the integration of market with nonmarket corporate strategy, including organizational design, legal tactics, and lobbying; and government efforts to influence firm behavior through regulatory, legal, and financial instruments. The August 2005 issue includes articles covering the impact of the WTO on the textile and chemical industries, business collective action in India, private environmental regulatory regimes in Argentina, and the Chinese auto industry. *Business and Politics* solicits interdisciplinary theoretical and policy-oriented articles, case studies, and commentaries on the interaction between firms and political actors.

To subscribe or submit an article, please contact *Business and Politics* at:

Tel: 510-643-1732 Fax: 510-643-1746

E-mail: bap@socrates.berkeley.edu

Web: www.bepress.com/bap



APEC UPDATE

(Continued from page 2)

need to use diplomacy as a means of reopening Six-Party negotiations, instead of the hard-line actions that the United States proposed. China is likely to continue to play a key role in these talks as one of the few states that has maintained relatively stable relations with the North. Both South Korea and the U.S. have urged China to use its leverage over the North during negotiations, but China argues that it has less influence than everyone else believes.

South Korea hopes that APEC will provide a venue in which countries involved can rejuvenate the stalled negotiations to resolve the North Korean nuclear crisis. Given the current status of APEC, it might not be an easy task, however. In looking at the history of the Korean issue, it seems unlikely that the North will change its stance unless it no longer feels as if the U.S. is a viable security threat, especially in light of the recent Iraqi war. With the rising security tensions in Northeast Asia and the economic interests that APEC is based upon, little to no development may come out of South Korea's attempts in APEC this year.

BASC BOOK REVIEW

(Continued from page 4)

to address the reality of China as a rising regional power. Okamoto emphasizes the need for Japan and the U.S. to collaborate with each other to form critical mass for APEC, but he does not recognize that no collective effort for institution building in the Asia-Pacific region will be complete unless the China factor is considered. Okamoto's book leaves many questions unanswered in this regard.