

# BASG News

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

## Summer/Fall 1998

Volume 1, Number 2

### In This Issue

**Board Member Interview** 1  
*Susanne Stirling*  
California Chamber  
of Commerce

**Director's Letter** 2  
*Vinod K. Aggarwal*  
Continuing Challenges  
in the Asia Pacific

**BASC Projects** 2  
*Trevor Nakagawa*

**BASC Analysis** 3  
*Lyuba Zarsky*  
APEC, Globalization  
and the Environment

**APEC Update** 5  
*Keith Nitta*  
Early Sectoral Liberalization  
Runs Into Japanese Opposition;  
Telecoms Mutual Recognition  
Agreement Reached

**BASC World View** 6  
*Hank Lim*  
APEC: Singapore's View

*Charles E. Morrison*  
Asian Financial Crisis: One Year

*Jörn Dosch*  
The Asian Crisis and Germany

**BASC Book Review** 7  
*From APEC to Xanadu:  
Creating a Viable Community  
in the Post-Cold War Pacific*  
Edited by Donald C. Hellmann  
and Kenneth B. Pyle

**Leadership Associates** 8  
*Stephen Rudman*

## Board Member Interview

### Susanne Stirling, California Chamber of Commerce

Susanne Stirling is Vice President, International Trade, at the California Chamber of Commerce.

#### **The California Chamber and the Asia-Pacific**

**BASC:** Fill us in about the California Chamber of Commerce's international business program and how this fits into the California Chamber's mission to protect, improve, and promote California's business, investment, and jobs-creating climate.

**Stirling:** The California Chamber is a broad based nonprofit membership organization through which business, industry and agriculture work for positive action on key legislation and regulatory issues affecting California's economic job climate.

The organization, established in 1890, is the largest and most broadly based employer representative in Sacramento. Its members include over 11,000 firms of all kinds and sizes, as well as 425 affiliated local chambers of commerce and 200 trade associations. Through its grassroots action program, the California Chamber reaches out to a statewide network of nearly 275,000 small business owners.

The rebound of the California economy provides us with an opportunity to turn our attention to the dawn of a new millennium and all the possibilities it will bring for our state. With our economy intact, it is time to examine ways we can strengthen the foundations of our industries to secure California's place in the world economy.

The Chamber's top priority for 1998 is limiting lawsuit abuse. We are also pursuing further regulatory reform, including re-vamping the California Environmental Quality Act and following up on reforms



enacted in 1997 to reduce the burden of the Endangered Species Act. We also believe that infrastructure dialogue must include ongoing discussions regarding a solution to the state's long-standing water supply needs and school facilities construction to ensure we have the space to teach students the skills they need to be effective employees in the next century. *How the state handles these internal issues inevitably affects its standing in the global marketplace.*

The California Chamber supports expansion of international trade and investment, fair and equitable market access for California products abroad, and elimination of disincentives that impede the international competitiveness of California business.

More specifically, the California Chamber, recognizing the current United States and California trade deficits supports: 1) reducing the federal budget deficit by controlling federal spending; 2) achieving and maintaining a better balance between the

*Continued on page 4*

## Director's Notes

WELCOME TO THIS ISSUE of **BASC News**. The Asian financial crisis has only somewhat abated, and the implications for the California economy and the U.S. more generally are now being felt. Corporate profits in many cases have fallen, and imports have been increasing from the Asia-Pacific. In this context, progress in sectors such as telecommunications (see our APEC Update) is a positive sign that countries are continuing to maintain a commitment to an open trading system. At the same time, liberalization efforts in other areas (such as forest and fishing products) have run into trouble. This fall's APEC summit in Kuala Lumpur will undoubtedly have financial issues high on the agenda, but discussions over Early Voluntary Sectoral Liberalization process will also be key.

In this issue, our board member interview features Susanne Stirling of the California Chamber of Commerce. Ms. Stirling presents a reassuring but cautious picture for California business in the wake of the Asian crisis. On the first anniversary of the beginning of the financial crisis, Dr. Charles Morrison, President of the East-West Cen-

ter in Hawaii, reflects on the impact of the crisis. Prof. Hank Lim of the National University of Singapore examines APEC's response to the crisis, as well as prospects for the upcoming APEC summit. Finally, Dr. Jorn Dosch, a professor in the Asia-Pacific Research Program at the University of Mainz focuses on the implications of the Asian crisis for Germany.

In our analysis section, Lyuba Zarsky, Co-Director of the Nautilus Institute for Security and Sustainable Development, a BASC Center Affiliate, examines APEC's Ecotech agenda and the prospects for sustainable development within APEC.

We continue to work with other centers and individuals interested in Asia-Pacific developments. Our Director of External Relations, Stephen Rudman, has been holding discussions with current and prospective Leadership Associates. I hope that you will tell your friends and colleagues about our activities and encourage them to become active BASC participants. Please contact us for more information and be sure to visit our website for analysis and updates on new developments in the Asia-Pacific.

—*Vinod K. Aggarwal*

## 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://globetrotter.berkeley.edu/basc>

---

### BASC Staff

**Vinod K. Aggarwal**  
Director

**Stephen Rudman**  
Director of External Relations

**Trevor Nakagawa**  
Project Director

**Kun-Chin Lin**  
Graduate Research Assistant

**Keith Nitta**  
Graduate Research Assistant

**Moonhawk Kim**  
Research Assistant

**Catherine Oliver**  
Research Assistant

**Mike Hunzeker**  
Research Intern

**Brandon Loew**  
Research Intern

**Jonathan Tsao**  
Research Intern

---

### Affiliated Centers

Institute of Asia Pacific Studies  
Waseda University, Japan

Eurasia Institute, HEC School of  
Management, France

Asia-Pacific Research Program  
University of Mainz, Germany

Nautilus Institute for Security  
and Sustainable Development  
Berkeley, California

POLEIS, Bocconi University, Italy

---

Layout and Design, *Keith Nitta*

## BASC Projects

### Project Update

**Trevor Nakagawa**

BASC PROJECTS are designed to promote collaborative international research and education about critical Asia-Pacific issues. Both our **USIA Cooperative Research Partnership** and **Asia Beckons Europe** project and the continue to progress. While we continue to expand our affiliated networks between our core institutions of UC Berkeley, Waseda University and ANU, we have now expanded our affiliated center list to include institutions from France, Germany and Italy. In addition, local corporate and business association support has enabled us to expand our activities to focus on the affects of the Asian Crisis on the California economy.

The **USIA Cooperative Research Partnership** with Waseda and ANU continues to thrive. Three research trips have already been completed. BASC Director Aggarwal has taken trips to both Australia and Japan to set up collaborative research and educational programs designed to analyze both

corporate and governmental strategies in the context of APEC and other multilateral institutions. From ANU, BASC Senior Research Affiliate John Ravenhill came to Berkeley last semester to present his preliminary findings regarding the nature and shape of international production networks in East Asia. His talk was well attended by corporate and business association representatives as well as several professors from various departments. BASC Affiliate Beverly Crawford spent two months in residence at Waseda to conduct research on the Japanese automobile sector and participate in other research forums.

At our successful **Asia Beckons Europe** international research conference held at Berkeley last November, we had a lively exchange of ideas regarding European corporate strategies across various sectors. In addition, there was a consensus to further collaborate on a sister volume that would test the results of this project against similar American and Japanese cases.

By the end of the year, we hope to conclude both the **Asia Beckons Europe** project and the second wave of **USIA Cooperative Research Partnership** visits. All systems appear to be go!

# APEC, Globalization and the Environment<sup>1</sup>

**Lyuba Zarsky**

Co-Director, Nautilus Institute for Security and Sustainable Development

APEC'S APPROACH TO THE environment is an anomaly. While APEC is predominantly focused on economic cooperation and trade liberalization, its work on the environment nonetheless flows in the "sustainable development" current, which is based on the idea that environmental protection should be built into the design of economic development plans and policies rather than addressed as an aftermath of economic growth. Rather than conflicts between trade and environmental rules and policies, APEC has focused on the discussion and design of practical, voluntary initiatives which broadly promote sustainable development. Like its trade diplomacy, APEC's environmental diplomacy grows out of a consensus-building, non-binding, "soft law" approach to international cooperation.

Given the narrowness, contentiousness and gridlock of environmental diplomacy at the WTO, APEC's broad scope and "nuts and bolts" approach are potentially promising. Moreover, global environmental and trade negotiations typically are conducted in separate institutions. Discussing them under one APEC roof suggests seeds of possibility for new approaches to environmental governance of the global economy.

In the first six years, however, the substantive results at APEC have been meager. Despite a plethora of "capacity-building" seminars and workshops, no collective policy initiatives have been charted or debated, let alone embraced. Significant areas of resource management, including forests and agriculture, remain off the agenda. And no effective institutional mechanisms have emerged either to coordinate APEC's environment work or to provide an interface with scientists, NGOs, and other "civil society" groups. Without stakeholder involvement, APEC's priorities and programs are unlikely to hit the mark and garner political passion.

Most important, despite APEC's stated commitment to "economy-environment integration," environmental and trade diplomacy have been tightly kept on separate and parallel tracks, both within individual APEC economies and in APEC as an institution. Divorced from both popular passions and APEC's high-powered trade and investment track, environmental cooperation remains mired in the lackluster province of bureaucrats and technocrats.

---

***"Divorced from both popular passions and APEC's high-powered trade and investment track, environmental cooperation remains mired in the lackluster province of bureaucrats and technocrats."***—Lyuba Zarsky

---

## **Parallel Tracks**

APEC runs on two tracks: 1) trade and investment liberalization and facilitation; and 2) economic and technical development, dubbed "eco-tech," where environmental cooperation is slotted. As of early 1997, there were over 40 projects on the eco-tech track, many of them relating to the environment.

Led primarily by the U.S. and Canada, APEC's environmental work program has focused primarily on developing common norms and building capacities to build capacities, that is, on information exchange and networking. Between 1994 and 1997, APEC Environment Ministers met three times and generated a "Framework of Principles for Integrating Economy and Environment" and a "Regional Program of Action." The Principles called for the "integration of the economy and the environment in all sectors and at all levels" and calls on APEC member economies to "support multilateral efforts to make trade and environment policies mutually supportive."

Adopted in June 1997, the Action Program stresses "private-public partnerships," rather than government-led initiatives, and

has three prongs: 1) clean technology, focused largely on promoting the adoption of ISO 14,000 environment management standards; 2) sustainability of the marine environment, currently focused on jumpstarting in Asia the Global Plan of Action to Reduce Land-Based Sources of Marine Pollution; and 3) sustainable cities, which covers a variety of initiatives but which aims to provide an integrative framework for urban growth. Other APEC work on the environment is lodged in the ten Working Groups, the most active of which is the Regional Energy Cooperation Working Group.

While many of the initiatives are worthwhile, the work program as a whole has fallen far short of APEC's stated goal of integrating environment and economy, including making trade and environmental objectives compatible. Indeed, work on the trade track has proceeded with nary a reference to the environment track.

The gap was glaringly visible at the 1997 Vancouver Summit, when two resource-intensive sectors, forest/wood products and fisheries, were designated as two of fifteen targets for "early voluntary sector liberalization"—without any assessment of environmental impact or management capacity. Under current policies, which include financial and ecological subsidies for forestry and fishing, trade liberalization will accelerate deforestation and further stimulate overfishing.

East Asia already has the world's highest rate of deforestation and loss of original habitat. Even without the stimulus of (non-environmentally conditioned trade), the region's timber reserves will be depleted in less than 40 years. In Southeast Asian seas, home of one of the world's most productive fisheries, the number of fishing vessels has greatly increased in recent years, resulting in the over-exploitation of several important species.

If environment and trade ran on the same rather than on parallel tracks, the elimination of destructive subsidies and the creation of adequate fishery and forestry management regimes would be a condition of liberalization. Without making sure that good environmental policies and management capacities in place *before* liberalization, APEC is pursuing not "sustainable development" but the same old "grow first, pay later" approach that has created severe and socially costly ecological degradation for the past three decades.

*Continued on page 5*

---

<sup>1</sup>This article is excerpted from Lyuba Zarsky, "APEC and the 'Sustainable Development' Agenda," *Asian Perspectives*, Portland State University, forthcoming.

# Susanne Stirling Interview

(continued from page 1)

U.S. dollar and the currencies of our major trading partners; and 3) actions designed to eliminate barriers that impede negotiating fair and equitable market access for California agriculture and manufactured products, as well as services.

**BASC:** Is the Asia-Pacific region of special importance?

**Stirling:** In a word, yes—one need only look at the 1997 trade statistics provided by the California World Trade Commission.

Despite concerns that the Hong Kong transition and the Asian financial crisis would disrupt trade relations, California exports to the three Greater China markets (China, Hong Kong and Taiwan) continued to grow dramatically in 1997. California

U.S. exports to the region. Surprisingly, California exports to the six of the seven ASEAN markets all showed increases over the second half of 1997 and five of the seven markets posted year-end increases over 1996 levels. This trend possibly occurred because many of California's exports to the region are electronic components which serve as intermediate goods in many of these countries' exports.

California exports to Thailand are up 1.7 percent since the July 1997 Thai baht devaluation and 1.2 percent for the year. Electronic components, which comprise 59 percent of California exports to Thailand and serve as intermediate goods in many Thai exports, increased five percent over the sec-

ond half of the year. California exports of processed foods and agricultural crops have also showed significant improvement since the devaluation.

California exports to Japan and South Korea continue to experience difficulty, declining 7.5 and 17.9 percent respectively in 1997. This trend is directly related to the severe economic problems experienced by both domestic economies, which in turn have led to weak corporate and consumer demand and the devaluation of the yen and won against the U.S. dollar. Nevertheless, Japan and Korea remain California's first and fourth largest export markets, comprising 22 percent of California exports.

## **The Asian Financial Crisis and California**

**BASC:** Now that the crisis appears to have peaked, what do you expect to happen in California?

**Stirling:** Trade flows to the Asia-Pacific region have only slowed and that impact has been minimal. The situation is likely only to slow the California recovery, not bring it to a halt.

**BASC:** What California business sectors have been most affected by the crisis?

**Stirling:** California-made electronics, industrial and agricultural products have been the most affected sectors.

According to the California Chamber of Commerce Economic Advisory Council we may see reduced tourism, especially from Japan. The situation, as it interacts with the high value of the dollar, is important for tourism since a big drop in Japanese tourists will produce a marked effect here. However, there has been a pick-up from Mexico and South America.

We may also see slower sales of manufactured goods. However, due to the diversification of California's economy, our increased sales to Mexico, Greater China, Europe and Latin America outweigh losses to some key Asian markets in 1997.

**BASC:** What strategies have the California Chamber and its members adopted in response to the Asian financial crisis?

**Stirling:** Although the Asian situation may hurt California exports to some extent in the short run, California could benefit in the long run. As the International Monetary Fund steps in, there is increased pressure on the Asian nations to open their markets. The California Chamber continues our efforts to promote international commerce.

## **California Chamber of Commerce and APEC**

**BASC:** Given recent events, what role does the California Chamber see for APEC?

**Stirling:** APEC will undoubtedly and should continue its secondary support of the IMF role in the Asian crisis. Otherwise, it is expected that the APEC will follow their pre-crisis agenda of sector liberalization. □

---

***“Due to the diversification of California's economy, increased sales to Mexico, Greater China, Europe and Latin America outweigh losses to some key Asian markets...”—Susanne Stirling***

---

exports to these three markets totaled \$13.4 billion, an increase of \$2.3 billion over 1996 levels. In 1997, California exports to Greater China accounted for nearly 28 percent of U.S. exports to the region.

California exports to China and Hong Kong are up 19.5 and 14.7 percent respectively in 1997. Combined exports to China and Hong Kong make it California's sixth largest export destination, with exports exceeding \$6.4 billion in 1997. Independently, China and Hong Kong rank as our fourteenth and eighth largest export markets respectively. After declining slightly in 1995, California exports to mainland China have increased \$1.2 billion or 63 percent over the past two years.

California exports to Taiwan increased nearly \$1.4 billion or 24.6 percent in 1997. Exports to Taiwan were driven by sales of industrial machinery and computer equipment (up 36 percent), transportation equipment (up 93 percent) and precision instruments (up 50.7 percent). This dramatic export growth makes Taiwan California's fifth largest export destination.

Despite the onset of the Asian financial crisis, California exports to the ASEAN countries (excluding new members Laos and Burma) declined only 2.5 percent in 1997, totaling just under \$14 billion and accounting for nearly 29 percent of total

exports to these three markets totaled \$13.4 billion, an increase of \$2.3 billion over 1996 levels. In 1997, California exports to Greater China accounted for nearly 28 percent of U.S. exports to the region.

California exports to Japan and South Korea continue to experience difficulty, declining 7.5 and 17.9 percent respectively in 1997. This trend is directly related to the severe economic problems experienced by both domestic economies, which in turn have led to weak corporate and consumer demand and the devaluation of the yen and won against the U.S. dollar. Nevertheless, Japan and Korea remain California's first and fourth largest export markets, comprising 22 percent of California exports.

On a larger scale, trade prospects for 1998 remain clouded by uncertainty over the impact of the Asian financial crisis. But even if merchandise trade growth shrank by as much as 25 percent of the 1997 rate, global trade expansion in 1998 would still be above the average rate recorded for the first half of the 1990s.

The total value of U.S. international merchandise trade grew by 10 percent to over \$1.4 trillion during 1997. The value of goods moving through California's customs districts grew by 7 percent to total almost \$340 billion in 1997.

California's exports of manufactured goods totaled \$109.5 billion in 1997. Cali-

# Early Sectoral Liberalization Runs Into Japanese Opposition

Compiled by **Keith Nitta**

CALLING FOR increased “flexibility” in the liberalization process, APEC Trade Ministers failed to reach an agreement on Early Voluntary Sectoral Liberalization (EVSL) at a June meeting in Kuching, Malaysia. Instead, they directed senior officials to continue working on a deal before the annual summit in November.

The United States, supported by Canada and Australia, proposed a plan to eliminate tariffs by 2005 in all nine EVSL sectors: environmental goods and services, fish and fish products, forest products, medical equipment and instruments, energy, toys, gems and jewelry, chemicals, and telecommunications.

The U.S., which refused to accept exceptions to its package plan, clashed with Japan, which insisted tariff cuts should be left to the discretion of each country. Of the 16 APEC countries which met in Kuching to discuss EVSL, only Japan refused to make any commitments, refusing to open its fisheries and forestry industries.

The U.S. trade representative, Charlene Barshefsky, attacked Japan over its position on the EVSL process. “Japan had been an engine of growth in the region,” she said. “Now it’s adrift. Now it’s a drag on Asia.”

Chile and Mexico have opted out of the EVSL process altogether, claiming APEC’s trade liberalisation agenda should be undertaken on a comprehensive basis.

## Telecoms Mutual Recognition Arrangement Reached

On June 5, APEC telecommunications ministers agreed to adopt the Mutual Recognition Arrangement (MRA). The MRA allows already tested and certified products to be exported without requirements for retesting in the import country and will speed up marketing of technologies and products that are rapidly updated. A similar agreement between the U.S. and the European Union was signed May 18.

---

**“Japan had been an engine of growth in the region. Now it’s adrift. Now it’s a drag on Asia.”**

—Charlene Barshefsky

---

The arrangement, which will be implemented on a voluntary basis between now and 2006, sets up a framework for manufacturers and exporters to test according to the standards of the importing country and provides remedies for when something goes wrong. The arrangement covers all equipment subject to telecommunication regulations, including wireless, terrestrial and satellite equipment.

Ministers also adopted a plan to promote electronic commerce within APEC and called for transparent, nondiscriminatory interconnection of telecoms services between countries at rates that reflect costs.

## APEC-based Asian Financial Assistance Proposals

The APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC), APEC’s research affiliate, have called for APEC-led responses to the Asian financial crisis.

“Reclaiming the high-growth rates of the past and making it sustainable for the coming millennium will require a new coherence in policy-making and institution building which has not yet been seen in the Asia-Pacific,” PECC chair Robert Romulo told APEC Trade Ministers at their June meeting in Kuching, Malaysia.

ABAC has called for APEC members to guarantee bonds issued by the governments of financially ailing countries. ABAC members have compared the proposed securities to the U.S.-backed Brady bonds, issued in 1990 to help lift Latin American governments from debt crises. But the business leaders said they were going a step beyond Bradys by promoting a “new type of convertible government bonds” that would be similar to an asset-backed security, designed to help businesses, especially small and medium-sized businesses, in countries with ailing economies.

Although Taiwan is the only government that has firmly agreed to guarantee the bonds, Japan, Singapore and Brunei have also been named as likely candidates.

The Asian Development Bank (ADB) has already begun to back some government-issued bonds, including over \$600 billion issued by the Thai government. It is expected to begin backing bonds in Malaysia. ADB President Mitsuo Sato has expressed support for the plan and is expected to announce in July whether the ADB will move forward with a large-scale plan. □

## APEC and the Environment

(continued from page 3)

The high level of economic globalization in the Asia Pacific suggests APEC’s work program should focus squarely on the environmental governance of trade and investment. Investors and producers need clear market incentives and regulatory signals to raise their environmental performance. Governments need to set policy frameworks in common so that the pressures of market competition do not undermine environmental and public health.

## Whither Sustainable Development?

Given the political, economic and ecological diversity of its members, the achievement of regional consensus on any program, however modest, for environmental cooperation is no small feat. The fundamental obstacle to a deeper and more robust work program is the lack of domestic political demand—in virtually any APEC country—for APEC to grapple seriously with creating a framework for sustainable trade and investment in the region. Without domestic demand and the political will it generates, APEC’s initiatives will tend to be narrow and shallow and follow the stra-

tegic and commercial interests of its strongest members. Political will, in turn, stems from organic connection to pressing domestic issues and social movements. APEC is not the only international organization to find environmental initiatives dissipated by the disconnection between “top-down” initiatives and “bottom-up” concerns.

Despite its shortcomings, APEC remains the only multilateral trans-Pacific economic institution in Asia Pacific, a region of great strategic significance, including to the United States. Since environmental cooperation promotes long term U.S. goals of cooperative engagement with Asia, it is likely to remain on the U.S. radar screen at

*Continued on page 8*

## APEC: Singapore's View

Hank Lim, National University of Singapore

AFTER THE VANCOUVER SUMMIT, Singapore was very enthusiastic and had high expectations of the meeting's outcomes. Three decisions in particular stand out for Singapore.

First, the APEC leaders' endorsed a new regional framework for enhanced Asia-Pacific regional co-operation to promote financial stability. The plan creates a regional early warning system for financial instabilities, along with a supporting role for IMF-led financial bailouts. In the eyes of Singaporean officials and scholars, the agreement demonstrates that APEC has now expanded beyond only being concerned with trade issues to becoming concerned with macroeconomic policies.

Second, the progress made in trade liberalization has been substantial through a combination of improved offers in the members' individual action plans, collective actions, and most significantly, identification of fifteen sectors for early voluntary liberalization. The EVSL agreement shows that APEC economies, including those affected by the currency crisis, are ready to quicken and broaden the process of trade liberalization.

Third, and most importantly, APEC leaders adopted an agreement to study the impact of liberalization measures on domestic development. The agreement was driven by concern over the impact of globalization on developing economies. APEC members agreed to address these issues within the broader agenda of Economic and Technical Cooperation (Ecotech). It is through this process that APEC's developing economies, and particularly small and medium-sized businesses within developing economies, can truly benefit from trade liberalization.

Singapore has been a strong supporter of the APEC process and its objectives for freer trade and investment and regional co-operation to support a multilateral trading system coupled with economic and technical assistance. Accordingly, in 1993 Singapore offered to host APEC Secretariat. It also played a pivotal role in the APEC vision of free trade in the Asia-Pacific by 2020.

At the same time, Singapore, a member of ASEAN and a close neighbor of Malaysia, has always been sensitive to the ASEAN agenda and interests in APEC and align its policy accordingly.

This year Malaysia will host the Tenth Meeting of APEC Ministers and the Sixth Meeting of Heads of Government. Malaysia, with the support of Singapore and other ASEAN members, wants to focus on financial and banking rules and regulation in view of global financial liberalization and the Asian financial crisis.

In particular, Malaysia and Singapore would like to focus on the quality of APEC members' training programs for banking supervisors and regulators and an improved monitoring and early-warning system for impending economic and financial crises. Finally, with a view to promoting freer and stable capital flows in the region, Singapore wants to focus on the vital link between financial and capital flows on the one hand and the traditional concern for liberalization of trade and investment on the other. □

## The Asian Financial Crisis: A One Year Report

Charles E. Morrison, East-West Center, Hawaii

A YEAR HAS PASSED since the Thai government was forced to float the baht, effectively devaluing their currency by twenty percent, and the Asian financial crisis began in earnest. In that year, public officials and economists all over the world but particularly in the United States have consistently underestimated the seriousness of the economic difficulties presented by the crisis. As the financial crisis has bit more deeply into the world economy, the economies of several countries are actually shrinking, by as much as 20 percent this year in the extreme case of Indonesia. Unemployment has risen to unprecedented levels around the region, raising questions of social stability.

Announcements of poor economic performance reverberate back into the sensitive global financial and currency markets, so that recovery appears far off even for those countries, such as Thailand, which have made the most determined efforts at financial and economic reform.

---

***“The crisis is a clear test of the APEC process. While [the trade and investment liberalization and facilitation] agenda remains relevant, APEC officials have found it difficult to shift attention to a new set of more immediate economic priorities.”—Charles E. Morrison***

---

For intellectuals and policy makers, the crisis has profound implications. A clear challenge to academics is to provide a better understanding of the dynamics of the downturn in the light of simplistic but often popular explanations provided by the media and politicians. Two obvious examples are Asian cronyism, highlighted by the Western press, and the evil machinations of international financial speculators, an explanation with wide appeal in Asia. Cronyism and international financial explanations played role, but both existed prior to the collapse. Better explanations are clearly needed.

Policy makers are groping with the governance implications: what domestic, regional, and global mechanisms are needed to better regulate capital flows and financial markets without choking off growth? At the domestic level, the countries with IMF agreements are forced more or less reluctant along the path of reform. Others, such as Japan and Malaysia, are having even more difficulty. At the international level, dialogue has only just begun. The weaknesses of the IMF in forcing early attention to impending problems and in responding to situations that do not follow past patterns have been only too palpable.

The crisis is a clear test of the APEC process. The main focus of APEC activity was on trade and investment liberalization and facilitation. While this agenda remains relevant, the APEC officials have found it difficult to shift attention to a new set of more immediate economic priorities. Developing international financial regulatory and rescue mechanisms and sorting through the appropriate roles of regional and global institutions remain key challenges raised by the Asian crisis. □

# Germany and the Crisis: Responsibilities and Prospects



Jörn Dosch, Johannes Gutenberg — University of Mainz

ACCORDING TO THE IMF, Asia's economic turmoil is already past its worst stage. Many believe that the crisis is not a sign of the end of Asian growth but rather a recurring pattern of financial instability that often accompanies rapid economic growth. Since most Asian countries have become deeply integrated into the global economy, they are likely to resume growth in two to three years. The world appears to have ridden out the Asian financial crisis.

More than Asian actors such as APEC, ASEAN, and even Japan itself, Germany has contributed significantly to the quick fix measures taken in response to the Asian financial crisis. In February, Finance Minister Theo Waigel promised Thailand about US\$114 million in loans to ease the liquidity problems of the country's companies. South Korea has been assured of US\$1.3 billion bilateral German aid in case the present international aid package for the country should prove to be insufficient.

Additionally, Germany is a key contributor to the EU's assistance efforts. EU members pay approximately US\$17 billion for IMF stabilization programs. In early April the Asia-Europe Meeting (ASEM) in London agreed in principle to the British proposal to launch an ASEM Trust Fund worth up to US\$50 billion. The fund's objective is to back the process of economic reform in Asia. While Germany favors financial assistance for Asia within the framework of established organizations such as the IMF, it has contributed to the fund, which has reached about US\$25 billion.

Not all agree with the government's policy of quick financial aid. At first glance, the crisis has only a limited direct effect on Germany. German exports to South Korea, China, Singapore, Thailand, Malaysia, Indonesia and the Philippines amounted only to 5.4% of all exports in the first quarter of 1997.

Looking more deeply, however, the economic turmoil in Asia could cost German taxpayers up to US\$15 billion if the federal government has to compensate companies for their losses in Asia. Germany is the second largest creditor, behind Japan, in East and Southeast Asia, with US\$122.7

billion invested at the end of 1996 (16.7% of all international credits). Under the "Hermes system," the government guarantees some risky export deals. Regarding trade with Indonesia alone, DM 14.3 billion (US\$7.9 billion) of Hermes guarantees are at stake. With DM 15.7 billion (US\$8.7) Indonesia is also the second largest debtor of German banks.

In contrast to the United States, the German economy still lacks robust domestic demand. Economic growth is mainly driven by the export sector. German exports to Asia are expected to fall this year, for example, 30% to Indonesia. Since exports to Asia compromise only a small percent-

---

***"...the economic turmoil in Asia could cost German taxpayers up to US\$15 billion."***

—Jörn Dosch

age of total German exports, however, businesses have been far more concerned about the crisis's indirect effects. They feared that falling exchange rates would lead to cheaper Asian products on the world market. As a result, German products would lose competitiveness. Businesses also worried that ailing Asian countries would try to export their way out of trouble, leading to a massive Asian export offensive.

So far, however, neither scenario has materialized. Many companies, especially in Indonesia and Thailand, lack the financial means to pre-finance trade deals. Additionally, they need to import products from supply industries abroad on a large scale. In total German exports will decline a maximum of 2% in 1998 compared to last year, much less than originally expected.

Even though economic indicators are already looking much better than a few months ago, the German government should not ignore the long-term political and social consequences of the crisis. A long period of political instability and social unrest in Indonesia and possibly other countries could hurt promising trade relations and investment opportunities with Asia far more than the narrow financial crisis.□

## BASC Book Review

### *From APEC to Xanadu Creating a Viable Community in the Post-Cold War Pacific*

Edited by **Donald C. Hellmann**  
and **Kenneth B. Pyle**  
M.E. Sharpe, 1997

Reviewed by **Moonhawk Kim**

IN THEIR RECENT BOOK, *From APEC to Xanadu: Creating a Viable Community in the Post-Cold War Pacific*, editors Donald C. Hellmann and Kenneth B. Pyle and nine other scholars evaluate whether APEC's current focus on economic-related issues and operation based on consensus is appropriate in the current regional and global political economy.

In the introduction, Hellmann and Pyle argue that the "monochromatic economic optimism" about APEC, which lacks historical and political economic context, needs to be reexamined. More specifically, they maintain that the role of APEC must be prescribed according to the political and security conditions prevailing in the post-Cold War era. Building on this premise, the main debate of the volume takes place between Gilpin on one hand and Drysdale and Elek on the other. Gilpin measures the Asia-Pacific against North America and Western Europe and concludes that APEC still lacks both economic integration as well as political motivation to effectively compete with the other two regions. Drysdale and Elek, however, applaud the flexible and innovative characteristics of the open economic association. They argue that the eventual approach to the security issues in the region should be as flexible as the economic arrangement.

These arguments provide the foundation for the works of other scholars in the volume. Authors on one side—Hellmann on U.S. leadership, Pyle on Japan-U.S. relations, and Ha and Kim on Korea—assert that APEC should address regional security issues and be more institutionalized. Others—Watanabe and Kikuchi on Japan, Soesastro on ASEAN and Zhang on China—maintain that the focus on economic issues and community building through consensus formation is more crucial.

No clear victor emerges from the debate. As the Asia-Pacific becomes more prominent in the global political economy, however, APEC will need to successfully address these competing demands.□

## Business and Politics

This international journal analyzes corporate strategies in the new global political-economy. It provides a special focus on two areas. The first emphasis is on the integration of market with nonmarket corporate strategy, which includes organizational design, legal tactics, and lobbying. The second emphasis is on government efforts to influence firm behavior through regulatory, legal, and financial instruments.

*Business and Politics* solicits research articles, case studies, and commentaries on the interaction between firms and political actors. With a prominent international editorial board made up of political scientists, economists, business school professors, legal scholars, and practitioners, the journal encourages interdisciplinary theoretical and policy-oriented research. To subscribe or submit an article, please contact *Business and Politics*.

Contact BAP at Tel: 510-643-1732, Fax: 510-643-1746,  
Email: [bap@socrates.berkeley.edu](mailto:bap@socrates.berkeley.edu). Or please visit the  
BAP web page at [www.carfax.co.uk/bap-ad.html](http://www.carfax.co.uk/bap-ad.html)



## APEC, Globalization and the Environment

(continued from page 5)

APEC. Moreover, the APEC region continues to become increasingly integrated in terms of trade and investment. The governance imperatives generated by economic integration, *viz*, a convergence toward common environmental standards, remain extant. Most promisingly, civil society organizations are increasingly pressing for new approaches to economic development which explicitly target environmental and social objectives. By deeply discrediting the old development model, the financial crisis may have provided a new opening for progressive voices and reform. The ability of these groups, on both sides of the Pacific, to coalesce into a significant regional political voice is likely to be the single most important determinant of the scope and direction of environmental regionalism.

Whether at APEC or some other regional forum, popular, strategic and commercial pressures suggest that environmental cooperation will be on the Asia Pacific agenda over the next decade. To truly promote sustainable development, environmental goals must be linked to and integrated with trade and investment rules and norms—not in a neo-liberal “trade-environment” framework which blindly asserts the primacy of trade, nor in a bland “sustainable development” approach which eschews new trade rules and economic policies. What is needed is a new approach to the governance of trade and investment based on the true integration of normative and policy commitments to economic development, ecological sustainability, and social justice.□

For more analysis, visit BASC on the World Wide Web  
at <http://globetrotter.berkeley.edu/basc>

From Stephen Rudman,  
Director of External Relations

## BASC Leadership Associates

On behalf of BASC, I would like to welcome our current BASC Leadership Associates and invite all those interested to become part of this group. Leadership Associates are active participants in the full range of BASC activities and support BASC through contributions. Leadership Associates take part in:

### **BASC Annual Conference**

The Annual Conference offers Asia-Pacific leaders from government, business, and the professions the opportunity to exchange ideas and information. BASC staff and invited guests will brief participants on the latest developments in APEC and its member economies and on current academic research of interest to both private and public sector decisionmakers.

### **Leadership Associates Briefings**

Leadership Associates also have an opportunity for more frequent meetings in smaller groups with BASC staff. These more focused gatherings enable BASC staff to brief Leadership Associates on specific topics of interest.

### **BASC News**

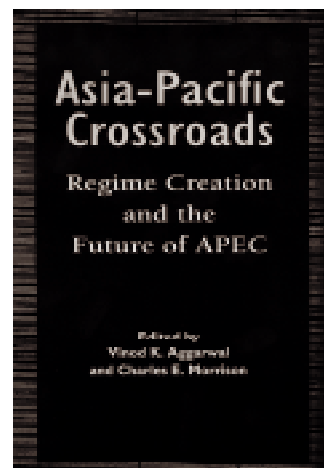
Leadership Associates receive BASC's newsletter, *BASC News*. The newsletter features analytic perspectives on current developments in the Asia-Pacific by BASC staff, affiliates, and Board Members. These include updates on APEC and BASC research projects, informative interviews with key private and public sector leaders, and book reviews.

### **Business and Politics**

Leadership Associates receive a complimentary subscription to *Business and Politics*, a leading international journal focusing on the interplay of business strategy and politics.

To join Leadership Associates please contact Stephen Rudman or Vinod Aggarwal at 510-643-1071 or email BASC at [basc@globetrotter.berkeley.edu](mailto:basc@globetrotter.berkeley.edu).

## New From St. Martin's Press



“Aggarwal and Morrison are among the outstanding global experts on APEC.”

—C. Fred Bergsten  
Director, Institute for  
International Economics

“Asia-Pacific Crossroads is surely the most comprehensive and instructive study to date of APEC.”

—Winston Lord, Former  
Asst. Secretary of State  
for the Asia-Pacific

\$55.00 cloth, \$18.95 paper  
416 pages

*Asia-Pacific Crossroads*, edited by Vinod K. Aggarwal and Charles E. Morrison with contributions from an interdisciplinary group of scholars, provides a novel theoretical approach to examine the interplay of economic, political, and security factors in APEC's evolution.