

BASC News

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

Director's Welcome



Prof. Vinod K. Aggarwal

I would like to welcome you to the Berkeley APEC Study Center (BASC) Newsletter and wish you a happy and prosperous 1998. BASC was created in 1996 at UC Berkeley to promote multidisciplinary research activities related to APEC—the Asia-Pacific Economic Cooperation forum. This grouping of 18 Pacific Rim countries, created in 1989, is working to reduce trade barriers for goods and services, increase investment flows, and discuss regional issues relevant to member states' economies. Our primary research agenda focuses on analyzing political, economic, and business trends in the Asia-Pacific related to these efforts.

As a unit of the Institute of International Studies at Berkeley, BASC brings together scholars from departments around the campus in business, political science, law, economics, geography, sociology, and area specialties. BASC also works with other centers and institutes both in Berkeley and abroad to foster international collaborative research on APEC-related security, business and environmental issues. Our activities include research projects, support for teaching about APEC, international conferences, colloquia, and outreach to the business and policy community.

1998 will be an exciting year for us. With major support from the United States Information Agency, we will launch an exchange program with Waseda University and Australian National University this year. Participants will focus on the implications of regionalism on policymaking in the public and private sectors in the Asia-Pacific countries. With a Center for German and European Studies grant, we are looking at European corporate strategies from an integrated market/non-market perspective in several economic sectors. Support from our Leadership Associates will also allow us to expand this project to include American and Japanese firm strategies in the region. We are grateful to all of these groups for their financial assistance. In addition, we have tentatively secured funding for a
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Board Member Interview

Derrel De Passe,
Varian Associates

As Vice President for Worldwide Government Relations at Varian Associates Inc., Derrel De Passe directs the company's legislative and regulatory affairs, government marketing, export licensing, and corporate government compliance. Based in Palo Alto, Varian Associates is an international, high-technology company specializing in semiconductor equipment, instruments, and health care equipment. Varian Associates is generally reflective of larger high-technology equipment manufacturers in the Silicon Valley.

Varian and the Asia Pacific

BASC: Many businesses appear to have been surprised by the rapid turn of events in Asian financial markets. Given that the Far East accounts for about a third of Varian Associates sales, how do you perceive the crisis affecting Varian?

De Passe: Many of our customers tend to be major companies, hospitals, and government-supported organizations. The drop in the value of the Asian currencies should make them more competitive globally so overall our business should not be as badly affected by the currency devaluations in the region as some other businesses.

BASC: Which of Varian's three core business—semiconductors, instruments, or health care—will be most affected by the crisis?

De Passe: The Asian market has traditionally been strong in the semiconductor sector. While some firms, Samsung for example, have been delaying their orders, we believe they will continue to make their semiconductor business a priority over other business interests, such as autos.

Health care perhaps will be our sector most affected. Orders of new hospital
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BASC Projects Project Update

Trevor Nakagawa, Project Director

BASC Projects are designed to produce timely research around critical Asia-Pacific issues of interest to academia, policymakers and business people alike.

In 1998, we plan to expand our successful *Asia Beckons Europe* project to include comparative case studies from both American and Japanese business-government perspectives. The new projects will examine key industrial sectors in American, European, and Japanese corporate market and nonmarket strategies in the Asia-Pacific. On the environment front, BASC continues to collaborate with other institutes on a project that examines the role that APEC collaboration can play in diffusing current environmental protection technology to address regional problems. Meanwhile, we continue to research how APEC can help in coordinating national policies on health issues, particularly with respect to the spread of communicable disease. Collaborative research papers are scheduled to appear next year in each of these issue areas.

Forging Economic and Business Partnerships Through the 21st Century

Through a large grant from the United States Information Agency, BASC established a cooperative research partnership with three leading research institutions in the Pacific Rim—UC Berkeley, Australian National University, and Waseda. With our collaborative research programs, we bring together leading scholars from all over the world to conduct collaborative research. In particular, we will examine American and Japanese corporate market and nonmarket strategies in the Asia-Pacific. True to our interdisciplinary nature, this project brings together scholars from all over the world from various disciplines to analyze different approaches used by corporations to advance their positions in the context of their regional and global strategies.

With this project, we hope to help in forging partnerships among academics, businesses, and governments in the Pacific Rim. As the U.S. moves forward to promote liberalization in the region, we hope that our program will contribute to an intelligent and reasoned approach to economic and business cooperation to enhance and promote stability in the Asia-Pacific.

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project on the management of environmental problems in the Asia-Pacific.

This first issue of *BASC News* includes an interview with BASC Board Member Derrel De Passe of Varian Associates. As a high-technology company with sales in the Asia-Pacific, our discussion with her focuses on the implications of changes in U.S. trade policy and the Asian crisis on Varian's many business areas. Our Current Events section, written by Ravi Bhandari, discusses the nature and likely evolution of the economic crisis in Asia with an analysis of its implications for the U.S. economy. APEC Update, compiled by Keith Nitta, summarizes developments at the recent Vancouver meeting of APEC. Our BASC World View section contains three different perspectives on this meeting with commentaries from our Senior Research Affiliates — Shujiro Urata, John Ravenhill, and Cédric Dupont. Paul Dosh discusses a forthcoming BASC collaborative book by St. Martin's Press that examines the development, evolution, and prospects for APEC. Finally, Stephen Rudman, Director of External Relations summarizes BASC activities for our Leadership Associates.

I would like to take this opportunity to thank all the people that have supported BASC. In particular, Richard Buxbaum, Dean of International and Area Studies, Michael Watts, Director of the Institute of International Studies, and Robert Price, Chair of the Political Science Department, all at UC Berkeley, have provided valuable moral and financial support for BASC.

Our plan for 1998 includes an expansion of our research agenda on our major themes, a large conference for our Leadership Associates, outreach briefings for our members, and the launch of *Business and Politics*, a new international journal to be published by Carfax Publishers, and supported in part by a grant from Professor David Vogel, Editor of the *California Management Review*. I would also encourage our readers to get involved with BASC activities at this crucial point in the history of the Asia-Pacific region. Please let us know how we might serve you better by contacting us. And don't forget to bookmark our new web page. We look forward to hearing from you. ■

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Current Events

Asia's Chain Reaction and the Threat to the United States

Ravi Bhandari, Research Affiliate

For the first time, there is a new “domino theory” in Asia—one in which a vicious cycle of currency devaluations, bankruptcies, and severe austerity measures imposed by the IMF saps both political strength and economic growth. The Asian tigers, once roaring in an environment of high growth and high saving rates, are now whimpering and bowing down to the painful conditions of the IMF, a scenario unthinkable only a few years ago.

For example, who would have thought that the devaluation of the Thai baht last July 2 would fuel a currency contagion in Southeast Asia that would eventually spread north to Taiwan and South Korea and send the Hong Kong stock market into a nose-dive? Notwithstanding the mantra of globalization, who would have thought the Southeast Asian crisis would not only expose the severe underlying financial and banking crisis throughout Asia now being felt in Japan, but would also have such far-reaching and profound implications on world markets from Brazil to Sweden — not to mention the largest one day drop in the history of the U.S. stock exchange? Finally, who would have thought that the typhoon which recently swept through Asian markets could undercut the remarkable growth in U.S. corporate profits, especially here at home in the Silicon Valley?

Still, many economists in both the private and public sector are in denial and see events as merely a “flu” that will go away in time with the proper reforms, rather than a fully blown debt crisis with dynamic properties all of its own. It should come as no surprise that the investment models used by these same economists have been thrown into chaos by recent gyrations in the market, while the entire market appears to be more sensitive to foreign tremors than it was even a month ago. Clearly, what most economists and analysts lack is a deeper understanding of the region as a whole and the often intricate and dynamic market interconnections a fully integrated global economy poses. Two things become clear from recent events. First, although there is still an illusion of insulation, U.S. markets will not escape unscathed. Assuming things do not get worse, which is a distinct possibility, BASC forecasted as early as in November that U.S. GDP growth will fall by a full percentage point, to under 2% for 1998. Second, the Asian Stock Market Crash of 1997, like the U.S. Stock Market Crash of 1987, are manifestly *international* events. Expanding Asian disorder can not only seriously undermine global growth and heighten financial market volatility, but can also threaten the present system of open global trade and payments.

In their final communique from the annual 18-nation Asia-Pacific Economic Cooperation forum, leaders urged the “rapid implementation” of an agreement reached in Manila, Philippines earlier in November to keep the IMF at the center of the region’s finan-

cial rescue and to devise ways to make it easier for the IMF to lend large sums of money to countries confronting short-term currency crisis. Beyond that, they sought to calm financial markets by saluting the “dynamism and resilience of the region.” But with Asia’s instability slowing growth throughout the region and depressing demand for U.S. exports, the Clinton administration fears that trade deficits, especially with Japan and China, will balloon and stoke protectionist sentiment at home.

In fact, APEC leaders’ optimism, although necessary in helping to restore confidence in the region, is largely unjustified. As all eyes focus on Japan, the country now faces another bout of extended stagnation. Deflation, or widespread falling prices, first threatened to push Japan into a downward spiral of falling prices and wages two years ago. At the time, the yen hit record highs against the dollar, sparking a boom in suddenly cheaper imports and tough price competition among domestic manufacturers. While the specter of deflation diminished significantly as the yen fell more than 30% against the dollar over the subsequent months, it has returned. Deflation-driven price competition lingers in Japan, largely due to sluggish domestic demand and Asian competition.

Although there is still an illusion of insulation, U.S. markets will not escape unscathed... U.S. GDP growth will fall as far as 1.5% in 1998.

Now, a financial and currency crisis sweeping much of Asia threatens to choke off demand for a chunk of Japanese exports, which were until recently a bright spot in the Japanese economy. Would a deeply depressed Japanese economy be in a position to absorb more exports from South Korea, China and Southeast Asia? Who’s kidding whom?

In an environment of competitive devaluation coupled with a chronic oversupply problem throughout Asia, rising demand for cheaper Asian exports does not mean rising profits. Debt-financed aggressive capacity expansion in the mid-1990’s has created a classic oversupply problem that has depressed prices. Take the example of South Korea and Japan, two countries whose nations’ biggest companies lock horns in a worldwide battle in key industries such as semiconductors, cars, and ships. To remain competitive, Korean companies are cutting prices. Japanese manufacturers will have no choice but to slash export prices at a time when domestic demand has been anemic for six years. A vicious cycle emerges: as the Korean and Japanese economies slow and profits are squeezed, their demands for imports from the U.S. also decline; that has a dampening effect on the U.S. economy, which is Asia’s biggest export destination.

For all their competition, however, Japan’s and Korea’s fates are intertwined. Japanese banks hold almost one-third of private loans to Korea, which reflect almost 10% of Japanese bank assets in Asia. As Japanese banks try to protect themselves by decreasing their lending to Korea, they tighten the credit squeeze on Korean companies, which in turn puts more downward pressure on the value of the won. In addition, since falling currencies and rising interest rates throughout the region cut off growth and badly needed capital elsewhere in Asia, Japan’s problems will most likely deepen since Asian countries account for a whopping 44% of Japanese exports (South Korea is Japan’s largest export market). This

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De Passe (continued from page 1)

equipment may be postponed somewhat. However, even in the health care sector there is overseas financial support from the Multilateral Development Banks and foreign aid programs, which are a continuing source of funding for large health care infrastructure projects.

U.S. Economic Policy

BASC: How do you think President Clinton's failure to secure fast track authority will affect Varian, and more broadly, U.S. business?

De Passe: In the short-term President Clinton still has the ability to continue negotiating agreements on information technology, agriculture, financial services and transportation, including the Information Technology Agreement (ITA) and the Mutual Recognition Agreement between the U.S. and European Union on medical devices.

Without fast track, however, U.S. leadership in larger market opening agreements will be threatened. This will disadvantage American workers in the long-term since the great majority of new high wage jobs have been created through exports. It is in the long term interest of our country, which has the most open market in the world, to continue to knock down global barriers to American exports. Without fast track, we may miss a big opportunity to lead in this effort. By remaining on the sidelines, we will give our major trading partners, the Japanese and Europeans, the chance to fill the void and create market-opening deals that exclude the U.S.

BASC: Organized labor and environmental groups have been critical of U.S. trade policy and fast track authority. How do you think American business can work with these groups to develop a coherent U.S. economic trade position?

De Passe: U.S. industry needs to do a better job of educating the public generally about the importance of trade to the overall economy, including the labor and environmental communities. During the fast track debate there was a lot of fear instilled among some members of the public about the alleged loss of American jobs if fast track were adopted. Many of these fears could have been dispelled if the public had better information about the link between global trade expansion and American job creation. Organized labor, for example, which led the fight against fast track, represents only 11 percent of the U.S. workforce, and only 7 percent if you exclude government employees. Most of these jobs are only indirectly dependent upon exports. However, the high growth sectors of the economy like electronics, which led the pro-fast track forces, are highly dependent upon the expansion of global markets. The net gain in U.S. jobs through market-opening trade agreements tends to be in these industry sectors that are non-unionized.

BASC: How important has House passage of the bill to extend Export-Import Bank authority to 2001 been to Varian?

De Passe: Europe and Japan use official government financing to support a much larger percentage of their exports than the U.S. does. For instance, last year, 32% of Japanese exports and only 2% of U.S. exports were supported in this way. While other governments see export financing as an important tool in helping their exporters gain strategic advantage in fast-growing overseas markets, our government by and large does not. Having said that, the EX-IM Bank supports a much higher percentage of U.S. capital goods exports to big emerging markets in developing countries

like Poland, Russia, and the Newly Independent States. Varian believes that EX-IM Bank financing can be used as a strategic weapon to gain sales in key international markets.

Varian and APEC

BASC: Many see APEC as a forum in which U.S. business can participate to make its concerns known and work to reduce economic barriers in the Asia Pacific. For example, APEC is committed to free trade in the area by the year 2020 for all members and by 2010 for developed members. How does Varian view the importance of APEC?

De Passe: Varian views APEC as very important to the long-term business interests of its businesses and to California business generally. The APEC region has many of the countries which represent the fastest growing markets for U.S. high technology products. Thus, it is in our country's best interest to foster cooperation among the APEC countries on a whole range of issues impor-

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tant to our industry, from intellectual property protection to product standards and tariffs. Better cooperation on these issues will help ensure that U.S. companies get better access to these fast-growing markets.

APEC can be a useful avenue to promote cooperation in some industry sectors of major importance to Varian, and California generally, such as environmental technology and medical equipment.

BASC: What developments would Varian like to see coming out of APEC activities over the next few years?

De Passe: We would like APEC to pursue regulatory harmonization, intellectual property protection, tariff elimination, and cooperation on human resources development, such as physician training.

Varian and BASC

BASC: We have been undertaking projects on comparative corporate strategies in the Asia-Pacific, the link between trade and environmental issues, and health care policy in the region. What key issues could BASC fruitfully address?

De Passe: Health care/equipment reimbursement and regulatory harmonization are a couple of long-term issues that we would like to be a focus of BASC.

BASC: How might BASC better interact with California firms?

De Passe: Outreach to industry sectors with a large stake in the APEC regional market could be accomplished through a variety of industry fora, such as those sponsored by trade groups in industry sectors like telecommunications, semiconductors and semiconductor equipment, computers, software, medical devices, and environmental technology. BASC might consider a series of special focus groups with companies in these industry sectors already active in the region to help it develop its future agenda. ■

APEC Update

Vancouver 97 Leaders' and Ministers' Meetings

Compiled by Keith Nitta

Canada hosted the 5th annual economic leaders' meeting and the 9th meeting of APEC ministers of foreign affairs and ministers responsible for trade. Ministers and leaders from all 18 APEC member nations gathered in Vancouver, British Columbia from November 22-25.

APEC Looks to IMF to Lead Asian Financial Bailouts

Leaders endorsed and urged rapid implementation of the Manila framework agreed to by APEC financial ministers earlier in November. The Manila framework called for the International Monetary Fund to take the lead in providing emergency loans to Thailand, Indonesia, and South Korea. APEC member nations will only supplement IMF resources if it becomes necessary.

Peru, Russia, and Vietnam join APEC

With the addition of Peru, Russia, and Vietnam, APEC expanded its membership to 21 member nations. APEC leaders also imposed a ten-year moratorium on new membership.

Sectoral Trade Barrier Reduction

Leaders followed their pre-crisis agenda by agreeing to a nine sector liberalization plan. Using the World Trade Organization's Information Technology Agreement as a model, APEC ministers identified nine additional sectors for fast-track trade barrier reduction: chemicals, energy-related equipment and services, environmental goods and services, forest products, medical equipment, telecommunications equipment, fish and fish products, toys, and gems and jewelry. In 1995, global trade in these nine sectors in-

involved \$1.5 trillion, while U.S. exports in the nine areas totaled \$170 billion.

Ministers agreed to create detailed market-opening plans in the nine areas by the first half of 1998, aimed at beginning implementation in 1999. Six remaining sectors, including civil aircraft and oil seeds, will be reviewed for action in June 1998.

Other Declarations

Leaders also agreed to:

- Work towards a successful conclusion of World Trade Organization negotiations on financial services by the agreed deadline of December 12, 1997;
- Harmonize and simplify customs clearances by 2000;
- Implement the Sustainable Cities Program of Action, which includes initiatives to encourage investment in environmentally sound infrastructure and community education;
- Work towards a successful outcome of the Third Conference of the Parties in furthering the objectives of the United Nations Framework Convention on Climate Change;
- Establish the APEC Education Foundation, the APEC Youth Skills Camp and the APEC Youth Science and Technology Festival to be held in 1998, and an APEC Education Hub, which will include scholarship awards for students;
- Hold a Ministerial Meeting on Women in 1998 in Manila and a Ministerial Conference on Education in 1999 in Singapore.

For more news, visit BASC Net on the world wide web at <http://globetrotter.berkeley.edu/basc>

Asian Chain Reaction

(continued from page 3)

dynamic could dash Asia's hopes of rebounding from the region's financial turmoil by exporting more goods.

Today, for the first time in years, there is excess capacity in every region in the world, including the U.S., and across many industries, from semiconductors to cars to penicillin, which will worsen as Asian countries try to export their way out of the current crisis through a process of "competitive devaluation." To be sure, mild and stable deflation can have short-term advantages. Cheap imports have so far kept interest rates and inflation down in the U.S., helping to extend the cycle of expansion longer than what most economists thought possible. In Southeast Asia, however, the short-term potential export gains from competitive devaluation would be overwhelmed by devastating effects on many fragile banks which rely heavily on overseas money. Moreover, sustained and rapid deflation can have the adverse effect of dragging any economy to a halt, slashing growth, investment and employment. Leveraged companies and individuals would find it increasingly difficult to pay off their debt, which in the worst case, could start a chain of bankruptcies and failures throughout the financial system reminiscent of the Great Depression. In Asia, higher import prices, falling domestic demand and lower wages for workers can further reduce demand, tempting countries once again to devalue

to regain competitiveness. All this coupled with Asia's freshly punctured asset bubbles in both real-estate and stock prices would further reinforce the deflationary spiral. Clearly, Asia has yet to feel the full deflationary impact of its latest devaluations. More importantly, if there is a failure of economic leadership in China or Japan to resist the temptation to devalue their currencies once again in lockstep with Southeast Asia, an Asian recession could easily translate into a world recession.

Just how much more Asian deflation the U.S. can import will determine whether the current economic debacle sweeping Asia ends up looking like a speed bump or a brick wall on the way to economic growth. Faced with a tight labor market at home, increased global belt-tightening and competitive devaluation in Asia, highly efficient U.S. companies here in the Silicon Valley may find it nearly impossible to raise prices and cut costs considerably, thus reducing profit expectations for 1998 and beyond. One only needs to recall the collapse in memory prices due to the glut of chips produced below cost by South Korea's giants Samsung Corp. and Hyundai. It took many years for Micron and Texas Instruments to outcompete their South Korean rivals. Success in this instance will hinge on the ability of American firms to upgrade new technology amidst a potentially sizable slowdown in exports of computers, other electronic goods, and industrial machinery to Asia. It remains to be seen whether American firms are up to the challenge. ■

BASC World View: Vancouver 97

Japan, APEC and the Asian Financial Crisis

Shujiro Urata, Waseda University

The Vancouver APEC ministerial meeting and leaders' meetings in November were very different from past meetings. Unlike previous meetings where trade and investment liberalization was the central issue, the Asian financial crisis dominated the talks. Indeed, this financial crisis was the first serious challenge that APEC members faced in the forum's history.

East Asian economies had performed well since the mid-1980s. The region's dramatic economic success was once described as the "East Asian Miracle." In contrast to such marvelous economic performance, a number of East Asian countries are currently fac-

The Japanese government must realize the importance of carrying out its own reforms to stabilize the shaky financial situation in Asia, and possibly the world, by stabilizing the yen-dollar exchange rate.

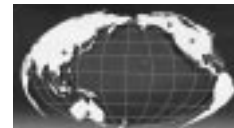
ing serious economic problems, and Thailand, Indonesia, and Korea have needed assistance from the IMF to deal with their financial crises. In addition to these countries, China and Japan are suffering from financial problems. At the leaders' meeting, Prime Minister Hashimoto had to explain the measures Japan would take to deal with its financial problems.

The achievements at the Vancouver APEC meetings included an agreement to strengthen the international financial system to avoid financial risks and establishing a cooperative framework to supplement the IMF. The need to carry out structural reforms and to practice sound fiscal policy on the part of APEC members was confirmed.

In this regard, the Japanese government must realize the importance of carrying out its own structural reforms in order to stabilize the shaky financial situation in Asia, and possibly in the world by stabilizing the yen-dollar exchange rate. The recent yen depreciation, which came in response to slow progress toward much needed structural reforms in Japan, was one of the major causes of the financial crisis in East Asia. It certainly contributed to the worsening of trade imbalances for East Asian economies by reducing their exports and increasing their imports.

It is important to note that trade and investment liberalization moved forward, albeit at very modest pace (speeding up the pace of trade liberalization for nine sectors), in very difficult times of financial crisis. APEC members have to be reminded that trade and liberalization has brought them economic success, and it will lead to a successful economic recovery. ■

For more coverage of the Asian financial crisis and commentary on other events in the current world political economy, please read our sister publication, ***Business and Politics***



A View from Canberra

John Ravenhill, Australian National University

The outcomes of the Vancouver APEC Leaders' Meeting were mixed for Australia. The financial crises in East Asia gave the Leaders' Meeting a prominence in press coverage that it might otherwise have not enjoyed. The Australian concern was that a pre-occupation with the financial crises might divert attention from the 'main game'—APEC's push for trade liberalization. Australia had no interest in APEC becoming involved in any bailout of the Asian economies; it shared Washington's view that the IMF was the appropriate lead agency for financial rescue packages and that any additional bilateral assistance should be conditional on countries' abiding by IMF conditionality.

APEC has increasingly been criticized in Australia for its failure to deliver on trade liberalization. The Labor Party governments in office in Australia from 1983 to 1996 had pursued a policy of unilateral trade liberalization, driven by the logic of neoclassical economics that tariffs can only hurt small economies. The government's vigorous promotion of APEC was the other side of its trade liberalization strategy—an attempt to convince domestic constituencies that the country's 'sacrifice' through tariff reductions was being reciprocated by Australia's leading trading partners. By the middle of the decade, however, the public was increasingly skeptical about this claim. The Individual Action Plans in many instances were merely a recommitment to promises already made. The new conservative (Liberal/National coalition) government that came to office in March 1996 responded to public skepticism by asserting that future tariff cuts in sensitive sectors in Australia would be dependent on similar action by its APEC partners.

After a period when Australia played a leading role in driving the APEC agenda, the U.S. has reasserted its dominance within APEC.

At the Vancouver meeting, however, Australia failed to have its top priority sector—foodstuffs—included in the nine sectors identified for fast tracking of tariff reductions. With Japan and Korea and several other East Asian economies regarding food as a sensitive sector, progress is likely to be extremely slow. Of the nine sectors identified for fast track reductions, only two—energy and chemicals—are of particular interest to Australia.

Equally significant as a defeat for Australian diplomacy was the decision by the leaders to admit Russia to membership in the organization. Australia has always been conservative on the issue of membership expansion, viewing a widening of the membership as likely to threaten progress on trade liberalization. Indeed, Australia saw Malaysia's championing of Chilean and Peruvian membership as a deliberate strategy to weaken the organization.

The Vancouver meetings served as a further reminder to Canberra that Australia is a small player in international trade and that after a period when Australia played a leading role in driving the APEC agenda, the U.S. has reasserted its dominance within APEC. ■

Vancouver 97 (continued from page 6)

Europe: Continuity and Change

Cédric Dupont, Graduate Institute of International Studies

European views on the Vancouver summit reflect both continuity and change in Europe's perception of APEC and of its political and economic role. Whereas Southeast Asia has sparked huge interest since the summer, the Vancouver meeting, much like the previous summits, made very few headlines. From the perspective of most Europeans, Asia is a region governed by big powers and not by institutions. As such, the focus is much more on bilateral relations between China and the U.S. than on the work of a multilateral meeting on the shores of the Pacific.

Change is reflected in the results that Europeans expected from the summit. In past years, there was an implicit wish to see minimal results come out of the meetings. For a large majority of European voters, Asia is the biggest threat to their daily lives, and therefore any initiative that might strengthen its economic and political power is bad news. Failures of APEC summits to reach far-reaching agreements have therefore prompted relief, whereas major steps towards greater economic cooperation (such as the Bogor declaration or the Osaka Action Agenda) have generated concerns and led to demands for protection.

Expectations for the Vancouver summit revealed a change in attitude. In France—hardly a country where there is widespread passion for the economic dragons of Southeast Asia—several commentators pointed to the need for major achievements during the Vancouver summit. Such achievements were considered to be of

utmost importance for France and Europe. The source of this change lies in the economic and financial turmoil that has hit Southeast Asia in the last months. Europeans suddenly discovered that the dragons were running out of fire, and they also discovered that this was a bad thing. Under conditions of increasing global interdependence, the threat from Asia is even bigger when economies show signs of illness as opposed to when they dramatically out-

Europeans suddenly discovered that the Asian dragons were running out of fire, and they also discovered this was a bad thing.

perform the rest of the world. Regional economic upheavals tend to send destabilizing waves across the planet. From this perspective, every initiative that can help remedy the illness should be supported, and this was the case at the APEC summit in Vancouver.

The meeting fell short of European expectations. APEC leaders' emphasis on their willingness to cooperate to bring stability back was not the kind of signal that most Europeans expected. Instead they wanted to see the U.S., first, and Japan, second, use the meeting to play a more assertive role in the economic stabilization of the region. This implies a U-turn in the European interpretation of APEC declarations. During the Uruguay Round, the tendency was to see U.S. self-interest behind each statement of joint action. Now, the use of joint action is seen as an indicator that the U.S. refuses to take responsibility! Unfortunately such inconsistency is both hardly novel and very likely to continue. ■

BASC Book Review

Institutionalizing the Asia-Pacific: Regime Creation and the Future of APEC

Vinod K. Aggarwal and Charles E. Morrison, editors
St. Martin's Press, in press

Reviewed by Paul Dosh

Regionalism has become a prominent feature of international relations in the second half of the 20th century, but one whose significance for the international order is not yet fully understood. In a new book, *Institutionalizing the Asia-Pacific: Regime Creation and the Future of APEC* (St. Martin's Press, \$55 in hardback, \$19 in paperback), editors Vinod K. Aggarwal and Charles E. Morrison and 12 other scholars use a novel theoretical framework to examine the Asia-Pacific, where a distinctive form of regionalism is developing in the shape of the Asia-Pacific Economic Cooperation (APEC) forum. Through both sectoral and country studies, as well as broader frameworks, the book evaluates current efforts to institutionalize APEC.

The Asia-Pacific continues to be characterized by both unprecedented economic growth among many economies and a regional institutional framework incommensurate with developments in other areas of the world. The APEC forum, established in 1989, is the most ambitious attempt at regime creation in the area to date. The authors of this volume analyze APEC as an institution for regime-building in order to address a series of questions regarding the likely evolution and impact of APEC upon the broader complex of international institutions.

After setting up a general conceptual framework based on the literature on institutional formation, the book uses a framework

designed by Aggarwal to explore four interrelated sets of issues among the key members of the region. Part I examines the effects of changes in trade, investment, and intellectual property protection on the formation of APEC. Part II focuses on domestic political processes of major countries in the region in relation to APEC. Part III examines how well APEC "nests" with global and subregional institutional arrangements and the possibility of future challenges in reconciling broader and narrower organizations. Finally, Part IV evaluates the future prospects and lessons for APEC from other regional and global institutional frameworks.

Aggarwal and Morrison conclude: "Ultimately, APEC will sink or swim with the general importance of its region. In this respect, we are APEC-optimists. As long as basic economic growth trends continue, the APEC economies are becoming more important to each other. This in itself provides a political and economic imperative for broad-gauged consultations among the leading economies of the region. Although the political-security tensions may retard or disrupt economic cooperation and institution-building, such effects are likely to be temporary. The forces that helped bring APEC into being at the beginning are only likely to grow stronger." Thus they argue that while APEC is unlikely to become a rule-making institution, it will facilitate collaboration in the Asia-Pacific through its effect on bilateral negotiations and subregional agreements.

While implementation of regional rules is unlikely, the open regionalism of APEC will support the GATT/WTO regime in areas

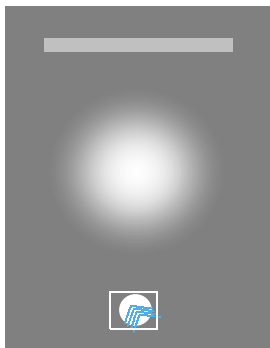
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**From Stephen Rudman,
Director of External Relations**

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

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

The Future of APEC *(continued from page 7)*

such as trade, intellectual property protection, customs classification, and transportation. If APEC can continue to encourage its member countries to comply with trade agreements and maintain compatibility with the WTO, it will help economic liberalization in the region and globally.

In an age of growing regional and economic interdependence, this study offers an insightful contribution to understanding regime creation and institutionalization. ■

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