In Maria Weber, ed., *After the Asian Crises: Implications for Global Politics and Economics* (London: Macmillan), 2000, pp. 173-198.

THE WOBBLY TRIANGLE:
ECONOMIC RELATIONSHIPS AMONG EUROPE, ASIA, AND THE U.S. AFTER THE ASIAN CRISIS

Vinod K. Aggarwal

Department of Political Science
University of California
210 Barrows Hall
Berkeley, CA 94720-1950
USA
Email: vinod@socrates.berkeley.edu

January 1999

I would like to thank Kun-Chin Lin, Trevor Nakagawa, Moonhawk Kim, Khim Lee, Grace Wong, and Deanna Wu for their research assistance and comments on this chapter.

Discussion of the potential conflict among three actors — Japan, Europe, and the United States — has been a popular topic among academics, policymakers, and popular commentators. More recently, China has replaced Japan in this role. Less pessimistically, there have also been cooperative efforts among different regions — or what I term transregional arrangements. These include the formation of the Asia-Pacific Economic Cooperation (APEC) forum that ties North America to Asia, the Asia-Europe Meetings (ASEM), the Trans-Atlantic Business Dialogue (TABD), the Free Trade of the Americas Agreement (FTAA) linking North and South America, and EU-Mercosur agreement. Thus, at least in theory, the three poles in the global economy might be able to stabilize and lead the world economy together, particularly if cooperative arrangements develop among major regions.

The recent Asian crisis, however, has thrown this three-legged stool into a wobbly crisis, and speculation that Asia is now 'finished' because of mismanagement, gross corruption, poor state planning, and the like rule the day. Yet reports of Asia's demise recall what a healthy Mark Twain cabled in 1897 upon reading his obituary: The reports of my death are greatly exaggerated.

This chapter analyzes the changing strategic relationship among Europe, Asia, and the U.S. with a focus on institutional forms of economic cooperation in trade and the financial arenas. Section I of the chapter provides an analytical framework to analyze the global economy that links governance structures and economic interactions and the driving factors that account for their development and change. Section II of the chapter provides a stylized empirical discussion of how these regions' economic relationships and institutional arrangements have varied prior to the Asian crisis and discusses the three major trends in organizing the global economy (globalism, regionalism, and sectoralism). Section III examines scenarios for possible new economic and institutional patterns after the Asian crisis.

I. A FRAMEWORK TO ANALYZE THE GLOBAL ECONOMY

To systematically examine the global economy, we first consider the relationship between economic interactions and various types of governance structures, and then briefly examine factors that influence changes in governance structures and interactions. In addition, we consider how various types of international institutions might be reconciled with each other.

Figure 1 depicts the analytical relationship among governance and interactions.

FIGURE 1 HERE

Starting with the right part of the figure, I distinguish between two aspects of institutions: meta-regimes and regimes.[1] Meta-regimes represent the principles and norms underlying international arrangements or overarching purpose of the international institution. International regimes refer specifically to rules and procedures. International regimes can be examined in terms of several characteristics, their strength, nature, and scope.

International regimes, whether multilateral or bilateral, are developed to regulate the actions of states. National actions can include unilateral actions or ad hoc bilateral or multilateral accords. These measures in turn affect the types and levels of interactions that we observe in particular issue areas. Examples of such interactions, which generally result from nongovernmental activities by private actors, include trade, investment, or short-term capital flows.[2]

The left hand portion of the figure shows that governance structures and interactions arise from the strategic interplay of countries, based in turn on the interplay of societal interests and the state in each country. Interactions, or economic flows of various sorts, are affected by changing technology, tastes, and modes of organization. In turn, changes in interactions will influence state and societal actors. The most common response for states in such situations is to respond to societal pressure through some type of unilateral action or bilateral arrangements. The former can include such things as the imposition of quotas or tariffs. The latter include the negotiation of voluntary export restraints (VERs) or other types of market sharing between states.

Governance efforts generally do not, however, end at the level of unilateral or bilateral actions. The imposition of unilateral controls and the conclusion of bilateral arrangements will often create some type of externality or affect the provision of goods, leading states to respond by negotiating with others that are affected. This may result in the formation of an international regime and meta-regime.

Traditionally, the supply side focus has been on the presence of a hegemon — that is, a single major power in the international system as essential to foster the development of institutions.[3] These states are able to provide both positive and negative incentives for other states to adhere to regimes. On the demand side, three factors appear to be important: the influence of 'institutional nesting'; a desire to control the behavior of other countries; and information and organizational costs. With respect to the first issue, institutional nesting, states will often be concerned about how new and old institutions will fit together. In addition, countries might prefer regimes as compared to bilateral arrangements is their potential for exerting indirect control over other countries' actions. If a country finds it costly to use power directly to influence the actions of others it might prefer a rule-based arrangement to control their behavior. Regimes can also be seen as a device by which decisionmakers control domestic pressure groups.[4] Finally, regimes may help to reduce organizational and information costs.

The supply of meta-regimes is influenced by the development of consensual knowledge among experts on developments in different issue areas.[5] The analogue to the demand for regimes in the meta-regime case is the goals of decision-makers, who respond to pressure groups in various countries.

Finally, actors must decide on how the institutions they adapt or create will be reconciled with existing arrangements. Will there be institutional conflict among these various accords, will one institution be dominant, or will there be some division of labor? I have addressed this question on institutional reconciliation at length elsewhere.[6] To briefly summarize the analysis, I refer to achieving reconciliation among institutions as ‘nesting’ of broader and narrower institutions in hierarchical fashion. Another means of achieving harmony among institutions is through an institutional division of labor, or ‘parallel’ linkages.

To sum up: this section has provided us with an approach to examine institutions and changes in the global economy. The elements we have focused on include the characterization and relationship between governance structures and interactions, some theoretical ideas on their evolution, and discussion of the reconciliation of new and old institutions.

II. THE EVOLUTION OF THE GLOBAL ECONOMY: TRADE INTERACTIONS AND INSTITUTIONAL TRENDS

We next trace developments in trade trends and trade and financial institutions. The objective is to simply note the types of trends we have seen in the post WW II period to gauge the likely impact of the Asian economic crisis that began in 1997.

Trade Interactions Among the Major Players

What types of trends have we seen in trading patterns among the major powers? Table 1 provides an overview of these patterns.

TABLE 1 HERE

Turning first to the U.S., exports from the 1950s to 1990 to Asia have dramatically increased in percentage terms while its exports to South and Central America have steadily fallen. Exports to Mexico began to increase in the 1980s. American exports to the EEC rose from the 1950s into 1980, but some of this is due to the addition of countries to EEC/EC. From 1990 to 1997, the picture has changed with East Asia (including the Pacific Rim, Japan, China, Australia, and New Zealand) remaining the most important U.S. trading partner while exports to the EU have fallen off somewhat as trade shifts have taken place to Mexico and South America as a result of trade liberalization and economic recovery in the region.

Japanese exports have been primarily oriented toward the U.S. and Pacific Rim from the 1950s to the 1970s, with a host of other countries making up the rest of its trade. With the addition of countries to the EC, Japanese exports to this region increased in the 1970s and continued to increase until 1990. Since 1990, however, the Pacific Rim and China have become Japan's dominant trading partners, with the U.S. in second place, and the EU trailing behind at about 18.5%. Chinese exports have shown a clear shift to the U.S. market and to the Pacific Rim from a previous East Bloc orientation. The rise in exports to the U.S. from 1980 to the present is clearly the most striking trend.

Exports shares for the EEC (excluding trade among the membe countries) from the 1950s to 1960 rose dramatically to the U.S. while steadily falling to Latin America. As new member states came to make up the EC, the relative share of exports to the U.S. initially declined but then returned to the 1960-70 level by 1990. In addition, EU exports began to increase to the Pacific rim more generally while exports to Latin America have not change much.

Institutional Changes in Trade

Although the General Agreement on Tariffs and Trade (GATT) has served as the key institution to manage trade on a multilateral basis since 1948, it has faced repeated challenges. When the International Trade Organization (ITO) failed after opposition in the U.S. from a coalition of protectionists and free traders, the Executive branch in the U.S. quickly took up the GATT as the key liberalizing instrument. What followed were several rounds of negotiations in the 1940s and 1950s, with the most significant post WW trading round beginning with the Kennedy Round negotiations (1962-67). This round focused primarily on significant reductions in tariffs and took a stab at nontariff barriers (NTBs) but these NTBs were not addressed in any comprehensive manner until the Tokyo Round (1973-79). Following a failed effort to start a new round of multilateral negotiations in 1982, the Uruguay Round of negotiations began in 1986. After repeated delays, negotiations involving older issues as well as new ones such as intellectual property, services, and trade related investment measures found their way into the World Trade Organization. This organization, now putting trade on more equal institutionalized footing with the Bretton Woods institutions, became operative in 1995.

Despite the dominance of GATT in the trade arena, we have also seen the parallel development of sectoralism and regionalism. With respect to sectoralism, since the 1950s, and accelerating in the 1980s, be it in textiles, steel, electronics, autos, footwear, or semiconductors, we have seen market sharing arrangements. At the same time, a new trend in promoting sector by sector liberalization has begun, an issue that we will take up in the next section.

The second key deviation from the multilateral process has been the developments of regional accords. Beginning in the 1950s, we have seen among others the formation of the European Economic Community (EEC), European Free Trade Area (EFTA), Latin American Free Trade Area (LAFTA), and the Association of Southeast Asian Nations (ASEAN). More recently in the 1990s, growing regionalism has arisen with Mercosur, the North American Free Trade Area (NAFTA), and the ASEAN commitment to form the ASEAN Free Trade Agreement (AFTA). Each of these institutions has developed its own metaregime and set of regime rules and procedures.

In addition to these geographically circumscribed regional arrangements, new transregional arrangements or summits have come into place. These include links between North America and Asia (APEC), the EU and U.S., and the EU and East Asia (ASEM). In addition, we have seen growing links between the U.S. and Latin America and EU links to this region as well. I defer discussion of current developments in and among regional groupings after the Asian crisis to Section III.

In the Asia Pacific, APEC has been in existence since 1989 — although it became a relatively significant forum only in 1993, when heads of states met in Seattle, giving the Uruguay Round of negotiations a strong boost. Since then, with the Bogor declaration, issued in November 1994 in Indonesia, APEC members set a target for achieving open trade for developed nations by 2010 and developing nations by 2020. As I have shown elsewhere,[7] considering all of APEC's norms together, although APEC is a regional accord, in its present relatively embryonic state it is more oriented toward openness than the WTO itself. APEC leaders met in November 1995 in Osaka, Japan to hammer out details of how to reach the free-trade goal. They also met in Manila in 1996 and then in 1997 in Vancouver, a meeting that was dominated by financial issues.

Despite some progress, most would agree that trade liberalization, with the exception of sectorally-based agreements, has not proceeded smoothly.

A second transregional arrangement has been created in response to APEC. The Asia Europe Meeting (ASEM) process began in 1996 in Bangkok, bringing together the 15 members of the European Union, the seven ASEAN members, and China, Japan, and South Korea. While created as an effort to create links between a dynamic East Asia and a relatively slow growing Europe, the recent 1998 meeting in London has taken place under very different economic circumstances. As we shall see below, European financial aid for the region and questions about ASEM's direction face some of the same problems as APEC.

The third major link, between the U.S. and EU, has been even less institutionalized than ASEM — although obviously bilateral discussions and collaboration between the U.S. and EU member states have been ongoing. Following the NAFTA discussions, the notion of a Trans-Atlantic Free Trade Agreement (TAFTA) was vetted by both academics and policymakers. Despite regular Trans-Atlantic Summits between the EU and U.S., little progress has been made on the creation of a TAFTA. However, paralleling organizations of business people in the Asia-Pacific, the Trans-Atlantic Business Dialogue (TABD) was created in 1995 as an annual conference to promote investment and eliminate trade barriers between the U.S. and the EU.

Within the Americas, an effort to link arrangements in North and South America has proceeded with the Free Trade of the Americas Agreement. This arrangement is linked to the NAFTA agreement, which in turn is connected to an earlier suggestion for open hemispheric trade known as the Enterprise for the Americas Initiative (EAI) that President Bush proposed in June 1990. Building on the

EAI and NAFTA agreement, the U.S., pressed by Latin American countries to develop an APEC-type arrangement, organized a Summit of the Americas in Miami in December 1994 involving 34 countries. The participants agreed to work toward a free-trade agreement for the Western Hemisphere by the year 2005. This accord attempts to link five existing regional trade bodies (NAFTA, Central American Common Market (CACM), CARICOM (Caribbean) Andean Pact, and Mercosur) into a Free Trade Area of the Americas Agreement.

The final transnational arrangement we focus on is Mercosur. The four members of Mercosur, Argentina, Brazil, Paraguay, and Uruguay, signed an agreement with the EU on December 15, 1995 to set up a free trade area by the year 2005. The timing of this agreement, and the rapidity with which the EU proceeded to negotiate the agreement with Mercosur was tied closely to the December 1994 Summit of the Americas initiative. At the same time, Mercosur officially became a customs union in January 1995, giving additional impetus to a unified negotiating stance.

To summarize our discussion to this point, the trading order of the 1950s to early 1990s has been structured in the manner depicted in Figure 2.

FIGURE 2 HERE

In the old trading order, the GATT has been the dominant institution at the global multilateral level. Even though the GATT multilateral system has been challenged by the trend toward sectoralism and regionalism, it has at least until the last few years, been able to indirectly or directly encompass these arrangements. With respect to regionalism among countries, these arrangement have been explicitly permitted under Article 24 of the GATT, which allowed the formation of free trade areas and customs unions. And although sectoralism has posed a greater challenge, the Multifiber Arrangement in textiles and apparel trade, the most important exception, was explicitly incorporated as a part of the GATT system.

Institutional Trends in Finance

The Bretton Woods system created the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank) in 1944. Older institutions, such as the Bank for International Settlements (BIS) continued, with a focus on coordination of activities by central bankers. With the new Bretton Woods institutions, the objective was to provide both a short-term and long-term approach to lending, with the IMF taking care of the former in connection with the gold-dollar exchange rate system, and the World Bank initialy focusing on reconstruction and then later shifting its focus to lending for development projects. Following the collapse of the fixed exchange rate system in 1971, the IMF continued to function in modified fashion, with lending to stabilize economies rather than to simply ensure the management of exchange rates at a particular parity.

The debt crisis of the 1980s gave the IMF a new boost. It became the key institutional player in the management of debt rescheduling efforts throughout the 1980s, albeit with limited success. The 1989 Brady Plan, a debt reduction effort promulgated by the U.S. and supported by other creditor governments, and the Mexican crisis of 1994-5, saw the IMF again playing a key role. The IMF's recent role in the Asian crisis has been criticized by many analysts, and significant conflict between the IMF and World Bank over the management of the Asian crisis has been taking place.

In addition to the Bretton Woods institutions, regional banks have been created in Europe, Latin America, and Asia. In Europe, the European Bank for

Reconstruction and Development (EBRD) was created in 1990 to foster the transition of East European countries and countries of the former Soviet Union towards open market-oriented economies.[8] To avoid conflict with the World Bank, the EBRD sought to focus on lending for domestic transportation and telecommunications, emphasize environmental issues, and have close links to private sector lenders. While there is some degree of nesting of the EBRD within the World Bank, its ability to develop a distinctive mission tied to the link between democracy and market reforms, as well as encouraging the further integration of Europe gives it more of a parallel relationship to the World Bank based on a division of labor.

The Inter-American Development Bank (IDB) was established in 1959 with the purpose of accelerating the process of economic and social development in Latin America. The Bank promotes the investment of public and private capital, the utilization of its own capital for financing the development of member countries, the encouragement of private investment in projects, and the provision of technical assistance for the preparation, financing and implementation of development plans and projects.

The Asian Development Bank, was founded in 1966 to promote social and economic progress in the Asia-Pacific. The initial activities of the ADB were limited to raising money from donor countries to finance infrastructure projects in poorer member countries with provisions for repayment guarantees from their governments. Yet the effectiveness of ADB's pure finance role began to deteriorate in the 1970s. With the Asian economies "taking off" in rapid succession, global and emerging private Asian financial institutions became capable and willing to raise funds (often also with a government guarantee) on terms as attractive as ADB loans.

In summary, we have examined trends in the global economy with respect to trade and financial institutions and trading patterns. The Asia-Pacific has clearly emerged as a key actor from a trade perspective. At an institutional level, we have seen a multiplicity of trade and financial institutions that have emerged which potentially challenge the GATT/WTO and IMF/World Bank. Still, at least until recently, regional and sectoral institutions have for the most part been adequately reconciled with global arrangements.

III. SCENARIOS TO EXAMINE THE IMPACT OF THE ASIAN CRISIS

This section presents scenarios for the evolution of the global economic system after the Asian crisis. We focus on two questions: What kinds of trade and financial trends are we likely to see following the Asian crisis? And how are current institutional arrangements likely to change in response to these trends, both with respect to their characteristics and to their relationships to each other?

Economic Trends

We can begin with trade by examining exports from the three key different regions that we are focusing on in this chapter to one another in Table 2.

TABLE 2: Export Patterns Pre and Post Asian Crisis (in percent of total exports)

EXPORTS FROM ONE REGION TO ANOTHER	1997	Expected Trend
EU to US	19%	up
EU to East Asia	2.25% (China) 4.9 % (Japan) 13.0 % (Pacific Rim)	down
US to EU	20.8%	up
US to East Asia	1.9 % (China) 9.55% (Japan) 14.9 % (Pacific Rim)	down
East Asia to US	17.9% (China) 28.1% (Japan) 18.3% (Pacific Rim)	up
East Asia to EU	13.0% (China) 18.5% (Japan) 14.7% (Pacific Rim)	up

Note: EU percentage of total exports is extra-EU trade. Pacific Rim excludes Taiwan and Vietnam.

As we can see from this figure, the most likely pattern in trade is a sharp increase in exports from East Asia to the U.S., EU, and elsewhere. At the same time, as EU and U.S. exports fall to the region, firms will likely make efforts to replace these markets with greater exports to each other's markets. They will also shift their focus to markets in Latin America, other parts of Asia less affected by the crisis, and East Europe. Some of the areas in which exports from Asia and falling imports are likely to become a political issue are steel, automobiles, aircraft, chemicals, and a host o other products. The question of burden sharing of imports from East Asia thus has increasingly come to the fore and become a critical issue in various institutional fora.

More briefly, with respect to financial trends, there has obviously been a significant drop off in capital flows to East Asia, which played a significant role in exacerbating the crisis. With respect to gross private source capital flows to developing East Asia and the Pacific, the Table 3 illustrates the sharp drop.

Table 3: Gross Private Long-term Debt Flows to Developing Asia (current $ billions)

1996	1997	Jan.-June 97	July-Dec. 97	Jan.-June 98	July–Sept. 98
71.51	74.69	41.75	32.94	12.79	6.64

Source: World Bank (1998), p. 25.

As can be seen in the table, the fall-off in gross capital flows (accompanied by short term outflows from East Asia as well), accelerated in the latter half of 1997, and underwent near collapse by the end of 1998. This flow, which includes foreign direct investment, portfolio equity, bond issues, and commercial bank lending, has created a severe credit crunch in East Asia.

In terms of the relative exposure of the EU and the U.S. in the Asian crisis, while the data is difficult to obtain in view of the many different types of financial instruments, European banks are much more heavily exposed in Asia than their American counterparts. One estimate is that of $381 billion lent to Asian banks and firms, some 47 percent was by the EU as opposed to 9.7% by the U.S.[9] In terms of exposure to direct foreign investment, in 1993, the EU accounted for 12.9% of the stock of foreign investment in developing East Asia, while Japan had a 21% share and the U.S. had a 14.1% share.[10]

Institutional Trends: An Overview

The Asian crisis is clearly having an effect on both trade and financial institutions. With respect to trade institutions, we can illustrate some possible futures, driven by the Asian crisis and its effect on domestic pressure groups as well as changing views of the effect of globalization. Focusing for the moment on the trading system, we have the possibilities illustrated in Figure 3.

FIGURE 3: WHICH NEW TRADING ORDER?

First, globalism could continue to dominate. The World Trade Organization (WTO), the successor the GATT, could increasingly become the sole forum for trade negotiations, and existing sectoral and regional arrangements could begin to wither. A second possibility is that the trading system will be dominated by sector specific regimes for steel, electronics, aircraft, and other products. In this scenario, we would have managed markets by sector, and the WTO and regional arrangements would decline in importance. Third, we could have a world where the global economy breaks up into three or more regions. A fourth possibility is that all three forms of organization will continue to coexist and that no form of organization will be dominant. In this scenario, trade negotiations, both to liberalize and to protect markets, might take place in all three fora.

To examine likely futures, Table 4 summarizes both the likely changes in trade institutions and broader relationships among them. Because many of the “trade” groupings have begun to deal with financial issues, for ease of presentation, we consider financial institutions in Table 4 as well and discuss their role after the Asian crisis in the subsection after our discussion of trade institution changes.

Table 4: Post-Asian Crisis Institutional Trends in Trade and Finance

ORGANIZATION TYPE		PRE-ASIAN CRISIS	POST-ASIAN CRISIS
Sectoral arrangements (e.g. VERs, MFA, ITA)		APEC based negotiations and phasing out of VERs under the WTO	WTO based sectoral negotiations and unilateral restrictions on imports
Regional trade arrangements	EU	Deeper integration	Continued but problems with widening
	NAFTA	U.S. interest in Mexico	Stronger focus on Latin America
	ASEAN	Efforts to develop common market	Slowing of integration efforts
Regional financial arrangements	ADB	Regional lending efforts and project aid	Greater focus on playing a role in the Asian crisis
	IDB	Regional lending	Need to react to spillover from Asian crisis on Latin America
	EBRD	Regional lending	Need to react to spillover from Asian crisis on Russia
Transregional arrangements	APEC	Movement toward APEC as forum for sectoral liberalization and more general regional liberlization	Stalled trade negotiation efforts as financial issues take precedence over trade; debate over Asian Monetary Fund
	ASEM	European interest in countering U.S. push	Slowing effort in EU-East Asian cooperation
	US-EU	Transatlantic business dialogue	Increased pressure to undertake further sectoral liberalization in this forum and formalize arrangements
	FTAA	Efforts to move forward blocked by lack of fast track authority in U.S.	Asian crisis spillover and lack of fast track stalls FTAA and shifts focus to financial issues
	EU-Mercosur	Movement toward an accord stalled by agricultural issues	Financial crisis and agricultural issue slow progress
Global	WTO	WTO and China; new negotiations with Millenium Round of WTO	No rush on China accession; delay in new round
	IMF	Conditional short term lending with standard economic policy packages	Need to react to criticism of conditionality policies in the Asian crisis
	World Bank	Project lending and infrastructure development	Active role as a participant in Asian crisis resolution and effort to distinguish its policy proposals from IMF
Nesting or Parallel: regional within WTO and Bretton Woods institutions		Efforts to reconcile regional and sectoral accords	Growing debate over nesting regional and sectoral accords

Institutional Change and Trade after the Asian Crisis

With respect to sectoral trading arrangements, until the Asian crisis, it appeared that the phasing out of VERs and other sectoral arrangements such as the MFA (as called for in the Uruguay Round negotiations) was on track. However, with the dramatic fall of exports to Asia in several products and an influx of imports from these countries as they attempt to service their debt, protectionist pressures are now on the rise.

The escalating protectionist tensions have centered on the question of whether the U.S. or Europe will absorb the global repercussions of the Asia crisis. The sectors of escalating protectionist sentiments between the U.S. and the EU range from steel, air transport and cars, to bananas and beef. In air transport, massive layoffs by Boeing following sales losses in Asia have led House Minority Leader Richard Gephardt to suggest that the U.S. should file a complaint with the WTO for the continuing subsidies in research and development that have enabled Airbus to unfairly price its aircraft.[11] And in steel, a massive influx of cheap steel imports from Asia, Brazil, Eastern Europe and Russia, driven by the appreciation of dollar against currencies of major steel-producers and by the low demand in Asia, has prompted anti-dumping charges in the US and EU.[12]

Other sectoral efforts have been taking place in an effort to liberalize trade, rather than restrict it. These arrangements, including the information technology agreements, the telecommunications accord, and the agreement on financial services, negotiated under the auspices of the WTO as a holdover of unresolved issues from the Uruguay Round. But at the same time, APEC has played an active role in setting the agenda on these issues, at least until recently, and is an issue we take up below.

Turning to regional trading arrangements, we do not expect to see significant changes as a result of the Asian crisis in the EU and NAFTA. For example, the EU effort at monetary integration has been proceeding apace. On the other hand, it may become more difficult for the EU to widen, despite current commitments to do so, because of growing protectionist pressures from industries affected by the crisis. In North America, NAFTA is continuing to guide trade in the region, and does not appear to be affected by the crisis. Among ASEAN countries, by contrast, we the expect movement to liberalize trade through AFTA to stall. This topic is taken up in the chapter by Benedetta Trivellato.

Shifting our focus to transregional arrangements, in the last couple of years, APEC members have played an important role in promoting sectoral liberalization. In an effort to push negotiations forward in information technology, APEC members agreed to an APEC wide liberalization program in this area in Manila in 1996, and then pressed to have it became a multilateral agreement at the WTO December 1996 Singapore Ministerial meeting. The agreement calls for the phase out of tariffs on several categories of equipment. This effort can be seen as using sectoralism <u>regionally</u> to pursue sectoral liberalization <u>globally</u>.

The US chose this path with enthusiasm, using this model to promote liberalization in a variety of other sectors. In Vancouver in 1997, Ministers agreed to consider nine additional sectors: 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. The U.S. led a movement to make the nine-sector liberalization a package in order to discourage countries from picking and choosing sectors based on domestic concerns. But at Kuala Lumpur at the 6th Leaders' Summit in November 1998, Japan, supported by other Asian countries who were concerned about moving forward with liberalization in their weakened economic state, refused to liberalize fishing and forestry products. This development threw the U.S. strategy of using APEC as the vanguard for sectoral liberalization into disarray, forcing the participants to send the whole package to the WTO for negotiation. Thus, for the moment, as a result in large part of the Asian crisis, APEC's role in trade liberalization has stalled.

Unlike the APEC forum, the 25 member ASEM was originally designed to explicitly balance Asian and European cooperation in the areas of politics, security, society and economics. At the end of its inaugural summit launch at Bangkok in 1996, the 15 EU and 10 Asian states agreed that ASEM need not be institutionalized. At the April 1998 London summit, the emphasis shifted dramatically with respect to issues. With the Asian crisis now at the top of the agenda, other issues on the agenda were sidelined. With an even weaker metaregime than APEC's, the issue of its purpose continues to bedevil negotiations. Despite the adoption of a Trade Facilitation Action Plan (TFAP) to lower non-tariff barriers between Asian and European countries, trade liberalization has taken a back seat to the financial crisis (discussed below. ASEM's current intangible institutional structure is hardly conducive to liberalization on the scale and scope of APEC, let alone the EU. Thus, contrary to what might be expected a priori, a weakening APEC has not led to a strengthening of the ASEM relationship.

Despite ongoing agricultural conflicts, the TABD has been closely involved in developing closer business relations between the EU and the US. It has helped set the agenda for the talks that led to the 1997 signing of a series of Mutual Recognition Agreements on conformity assessment. This has led to promising cooperative arrangement proposals on standards and regulatory policy in a wide range of sectors, with recent discussions centering on facilitating internet commerce through further policy harmonization. On March 11, 1998, the TABD also provided a forum to gather support for the official Transatlantic Marketplace initiative, which later led to the Transatlantic Economic Partnership (TEP) initiative. Under this plan, the elimination of numerous technical barriers to trade, the harmonization of regulations, government procurement issues and intellectual property are now under active discussion. Yet politically salient issues are likely to be conducted in more politically driven networks such as the Transatlantic Policy Network, involving members of European Parliament and the US Congress.

In terms of the effect of the Asian crisis, one might also have expected closer cooperation between the U.S. and EU as a result of the weakening of the third leg of the global economy. Instead, we have seen a sharp negative spillover from the crisis on their relations. At the November 1998 TABD conference, in response to various American criticisms, the harmonization agenda fell by the wayside as EU officials used the forum to argue that the EU was doing as much as the US to absorb increased Asian imports. With U.S. officials insisting that "[t]he U.S. cannot be the importer of only resort"[13] and warning of pressures for protectionism, the EU responded by issuing a string of statistics on the role that it had played in the crisis. This data did not do much to convince the participants, instead setting off additional acrimony between the U.S. and EU. Thus, as in other transregional fora, the Asian crisis has served to undermine institutional progress.

The Asian crisis has also shifted the focus of FTAA discussions as the U.S. remains unable to move forward without fast track authority. The spillover of the crisis to Brazil and other countries in Latin America has shifted attention to financial issues. Ironically, the financial aid effort mounted through the IMF by the U.S. has helped to counter warming relations between the EU and Mercosur. The result has been to increase the level of conflict over agricultural issues as part of EU-Mercosur free trade discussions, as the need to move closer among these groups has diminished with U.S. financial support for Brazil.

Finally, with respect to the WTO, the prospect for a new round has been potentially endangered by the financial crisis as Asian participants must cope with their immediate short term financial problems. On one key issue, the accession of China, the crisis has had an interesting dual effect: on the one hand, the U.S. is pleased that the Chinese have held the line on devaluation of the yuan, preventing another round of crises; on the other hand, the continued success of the Chinese in exporting to the U.S. market, compounded by the rise in imports from the Pacific Rim, has made its accession a more complicated issue. Thus, for the moment, considerable further delays on Chinese accession appears to be the net result.

Institutional Changes and Finance after the Asian Crisis

With respect to the Asian crisis and the subsequent financial bail out, many of the institutions in the Asia Pacific have attempted to play an active role but in an effort to maintain its dominance, the IMF continues to resist. Beginning with its first key Asian program after the crisis began, a total package of $17 billion to Thailand in August 1997, the IMF, supported by the U.S., attempted to deter any rival institutions from taking a significant role. With the U.S. failing to financially participate in the Thai rescue package, the Japanese took the lead in September 1998 with a proposal for an Asian Monetary Fund (AMF), to be backed by $100 billion that they had lined up in commitments in the region. But the IMF and U.S. attempted almost immediately to quash this initiative, with the Treasury leading the charge.[14] The U.S. viewed such a fund as undercutting the conditionality imposed by the IMF. In addition, it expressed concern about the relationship that any such fund would have to the IMF. Three positions quickly emerged: the Japanese argued for some division of labor and parallel linkage between the two funds, with an AMF playing a role in crisis prevention as well. A second view, expressed by Malaysian Prime Minister Mahathir, was to have an AMF that would be independent of the IMF, thus creating a clear institutional rivalry. The third view, the IMF and American position, was that any Asian fund should be fully nested within the purview of the IMF.

The success of the U.S. and the IMF in forestalling creation of a rival financial institution was embodied in the November 1997 Vancouver APEC summit meeting leaders endorsement of the so-called Manila framework, agreed to by APEC financial ministers shortly before the start of the summit. The Manila framework called for the International Monetary Fund to take the lead in providing emergency loans to Thailand, Indonesia, and South Korea, with APEC member nations taking only a secondary role, if necessary, to supplement IMF resources on a standby basis without any formal commitment of funds. Thus, with the APEC action providing the seal of the U.S.-IMF backed plan, the AMF idea was put on hold. During 1998, two additional formal meetings and one ad hoc one were held under the auspices of the Manila framework. Little of major significance in changing the handling of the Asian crisis took place at these meetings, but prior to the last meeting held in Kuala Lumpur, the Japanese again raised the issue of an Asian Monetary Fund. bit the U.S. again resisted this idea. It succeeded in watering down the effort to a $10 billion fund for Asian economies, calling for creation of a new $5 billion joint initiative of the US, Japan, the World Bank and the ADB with the US contributing an additional $5 billion. Still, the Japanese continue to press forward with the notion of a separate AMF, and Finance Minister Kiichi Miyazawa this time called for regional funds in

Latin America and East Europe as well. It remains to be seen if this idea will make headway, but in the current context, U.S and IMF opposition seems certain.

APEC's efforts to play a more significant role in crisis resolution have also been paralleled by ASEM. At their April 1998 summit in London, members agreed to create an ASEM Trust Fund. The fund, managed and administered by the World Bank, is designed to soften the impact of the crisis on Asian economies. Through October 1998, the Trust fund has raised $47 million from European members. Although a start, this effort remains extremely modest in view of the scope of the crisis. Indeed, the ASEM Trust Fund been criticized by Germany and Japan as duplication of IMF and World Bank efforts.

Meanwhile, the Asian crisis has intensified the ongoing debate over the ADB's organizational mission: on the one hand, a sharp rise in demand for its loans has rekindled contentions over resource distribution; on the other hand, the ADB's role appears irrelevant in the midst of heavy IMF and US intervention. Total lending rose from $5.54 billion in 1996 to $9.41 billion in 1997, but has fallen to an estimated $5.98 billion in 1998, of which program-based lending rose to 44% of total loans approved this year from its historic 15%.[15] The ADB's shift in priority toward regional banking reform, anti-corruption policies, and other aspects of the multilateral organizations' bailout packages has generated concern that the expansion of ADB's institutional scope in the aftermath of the Asian crisis will lead to overlap with multilateral institutions.

Reconciling Institutions

What has been the impact of the Asian crisis on the reconciliation of institutions? As we have seen, the trading system is facing challenges from sectoral and regional arrangements. Yet ironically, the lack of progress in APEC as a result of the Asian crisis, the shift in agenda in ASEM toward financial issues, and the absence of movement in the FTAA as a result of the lack of fast track and Latin American problems, has served to strengthen the WTO as a forum for trade negotiations. As relatively uninstitutionalized transregional arrangements find it difficult to move forward on trade issues, we can expect trade liberalization efforts to shift to the WTO. At the same time, however, the Asian crisis poses dangers of the revival of protectionism as Asian countries attempt to export their way back to financial health. Thus, the global effort to liberalize trade now confronts the strong unilateral temptation to block imports.

In the financial arena, the IMF has managed to retain its dominance in financial restructuring efforts. More than ever, however, the fund faces increasing criticism in its handling of the Asian crisis from voices across a wide variety of the political spectrum. Even the World Bank has turned to open criticism of the IMF, arguing that the policy of exchange rate stability at all costs through high interest policies has served to undermine the functioning of Asian economies and undermined weakened but healthy firms. In addition, as we have seen, calls for alternative approaches, including an Asian fund, continue to be made, and Japan have not desisted from backing such a program, despite its own weakened state. Thus, the ability of the IMF to sustain a smooth nesting of subregional arrangements and possible new accords faces a growing challenge.

IV. CONCLUSION

This paper has focused on the relationship of the major regions in the global economy — the U.S., Asia, and Europe — in the context of the Asian crisis and from an institutional perspective. The first section of the paper presented a way of linking governance structures with economic interactions, and discussed causal arguments on the evolution of meta-regimes and international regimes. The question of how these international institutions fit with one another is a crucial issue: I suggested that institutional reconciliation can take place through two means, by parallel linkage (a division of labor) or in nested fashion (with efforts to promote compatibility in hierarchical manner).

The second section of the paper traced the evolution of trade and financial institutions in the post WW era until the onset of the Asian crisis, as well as considering trade trends among the major regions. At the trade level, we have seen the oft-remarked importance of the Asian economies, in this case with a focus on the growing importance of these countries as both a source of imports and a market for the exports of major regions. With respect to institutions, we have seen the GATT continually challenged by both sectoral and regional accords, but at least until recently, it has been able to ensure that they were nested within its purview. The financial system has seen the clear dominance of the IMF and World Bank: together, these institutions have occupied nearly all the institutional space in finance, and regional banks have clearly been subordinated to the activities of these institutions.

So what might we expect to see after the Asian crisis? Section III first examined current trade trends, arguing that they pose a critical challenge for the liberal trading system. As in previous eras of high debt, the question of burden sharing that arises as countries are forced to fully pay their debt, primarily through exports, raises the question of the link between trade and finance. With financial flows dramatically falling to the region, the only alternative for these countries, barring willingness of creditors to engage in debt writedowns, is for these countries to focus on running balance of payments surpluses. From an institutional perspective, we have seen that this effort has undermined the ability of transregional arrangements such as APEC, ASEM, and TABD/TPM to mediate trade liberalization efforts. Ironically, then, the immediate pressure to cope with financial problems has enhanced the position of the WTO. Yet at the same time, this development raises the spectre of unilateral trade restrictions that will undermine rule-based agreements in trade, as developed countries' governments respond to falling exports and rising imports from developing debtors.

Although institutions in trade and finance have remained robust in the face of the Asian crisis, and regional institutions have thus far not undermined global ones, the broader issue of institutional reconciliation between trade and financial institutions has yet to be addressed. As in previous financial crises, the relationship between free trade and free flows of capital has become a topic of dispute. In the present crisis, the question of burden sharing between the real sector of the economy and financial institutions remains to be settled. Until additional efforts are made to find some means of truly increasing collaboration between the Bretton Woods institutions and the World Trade Organization, financial crises and protectionist backlashes will continue to haunt the global economy.

ENDNOTES

1. See Aggarwal (1985). Zacher (1987) and (1996) uses the distinction developed in this work in his analysis of regimes.

2. In security matters, we could examine weapons flows, the movement of fissionable materials, and so on.

[3.] Kindleberger (1973), Gilpin (1975), and Krasner (1976). Keohane (1984) provides a valuable critique and discussion of hegemonic stability theory.

[4.] See Aggarwal (1985) for this discussion of "control."

[5] See Haas (1980).

[6] See Aggarwal (1998).

[7] Aggarwal (1994).

[8] See Weber (1994) for a discussion of the creation of the EBRD.

[9] Los Angeles Times, August 9, 1998.

[10] EC/UNCTAD (1996), p. 29.

[11] Journal of Commerce, 12/11/98, p. A1.

[12] Journal of Commerce, 11/6/98, p. 3A.

[13] Vice President Albert Gore, The Washington Post, November 7, 1998.

[14] See Financial Times, November 14, 1997 for details on the proposal.

[15] Financial Times, 12/22/98, p. 5.

REFERENCES

Aggarwal, Vinod K. 1985. Liberal Protectionism: The International Politics of Organized Textile Trade (Berkeley and London: University of California Press, 1985).

------- 1994. "Comparing Regional Cooperation Efforts in Asia-Pacific and North America." In Andrew Mack and John Ravenhill, Pacific Cooperation: Building Economic and Security Regimes in the Asia Pacific Region (Sydney: Allen and Unwin), pp. 40-65.

——— (ed.) 1998. Institutional Designs for a Complex World: Bargaining, Linkages, and Nesting (Ithaca: Cornell University Press).

Aggarwal, Vinod K., Robert Keohane, and David Yoffie 1987. "The Dynamics of Negotiated Protectionism," American Political Science Review , vol. 81, no. 2 (June), pp. 345-366.

EC/UNCTAD (1996) Investing in Asia's Dynamism: European Union Direct Investment in Asia (Luxembourg: EC/UNCTAD).

Gilpin, Robert, 1975. U.S. Power and the Multinational Corporation (New York: Basic Books).

Haas, Ernst, 1980. "Why Collaborate? Issue-linkage and international regimes," World Politics, Vol. 32, No. 3, pp. 357-405.

Keohane, Robert, 1984. After Hegemony: Cooperation and Discord in the World Economy (Princeton: Princeton University Press).

Kindleberger, Charles P., 1973. The World in Depression, 1929-1939 (Berkeley: University of California Press).

Krasner, Stephen D., 1976. "State Power and the Structure of International Trade." World Politics, Vol. 28, No. 3 (April).

Weber, Steve 1994. "Origins of the European Bank for Reconstruction and Development." International Organization 48 (Winter).

World Bank (1998) Global Economic Prospects and the Developing Countries: Beyond Financial Crisis, 1998/99 (Washington, D.C.: World Bank).

Zacher, Mark, 1987. "Trade Gaps, Analytical Gaps: Regime Analysis and International Commodity Trade Regulation." International Organization, Vol. 41, No. 2, Spring.

Zacher, Mark, with Brent Sutton, 1996. Governing Global Networks: International Regimes for Transportation and Communications (Cambridge: Cambridge University Press).