

Northeast Asia: Ripe for Regionalism?

BASC ANALYSIS

by Kent Calder and Min Ye,
Princeton University

For half a century and more, international relations in the North Pacific have been dominated by the San Francisco System – an asymmetric “hub and spokes” framework of political-economic relations codified largely through the San Francisco Treaty of 1951, offering Asian nations open access to the U.S market in return for security alliance. The system has been gradually modified since the early 1970s by the inclusion of China and other communist nations, but retains to a remarkable degree the Japan-centric, Washington dominated form that it assumed in San Francisco half a century ago. Europe, Southeast Asia, the Southern Cone of Latin America, and even the Persian Gulf have

developed a relatively rich network of regional organization. Yet a pronounced “organization gap” has persisted in Northeast Asia.

Multiple pressures are building now to narrow this “organization gap” in one of the

The heart of new regionalist pressures in Northeast Asia is deepening economic interdependence among China, Korea, and Japan, especially since the Asian financial crisis.

world’s most volatile regions. Some of those pressures are economic and others political. Some are endogenous to the region and others flow from globalization and the formation of global institutions like the World Trade Organization (WTO). Together they may mean over the long run the emergence of a new co-

hesion in Northeast Asia, serving as a counterpoint to American dominance in global affairs. At a minimum these pressures represent a formidable new force with which American diplomacy must deal.

The heart of new regionalist pressures in Northeast Asia is deepening economic interdependence among China, Korea, and Japan, especially since the Asian financial crisis. Between 1998 and the end of 2001, intra-regional trade among these three nations grew 51 percent, while the trade of each nation individually with the United States rose only 18 percent, according to World Bank statistics. Japan now imports more from China than it does from the United States. Korea exported record high steel exports as a result of Chinese and Japanese demand. For years to come, both Korean and Japanese exports of finished and

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APEC UPDATE

by Janna Bray, BASC Research Assistant

The importance of this year’s APEC meetings in Thailand has greatly increased in the context of the global turmoil created by the war in Iraq and the spread of Severe Acute Respiratory Syndrome (SARS). According to Thai Prime Minister Thaksin Shinawatra, these global events have set the stage for APEC to become a stronger cooperative body, capable of dealing with both economic and political issues. Against this background, has APEC indeed dealt with such issues as a united front?

APEC 2003 officially began on January 1, 2003 when Thailand announced this year’s confer-

ence theme: “A World of Differences: Partnership for the Future.” Although APEC themes are often empty catch phrases, this year’s theme has proven to be particularly salient. First of all, the dissent among APEC members on the issue of the war has overshadowed and contradicted the so-called “partnership” that this year’s theme promoted. While Australia and South Korea joined with the U.S. to send troops to Iraq, New Zealand and Indonesia loudly voiced their opposition to military action in Iraq. Meanwhile, others like Canada, China, and Thailand chose to keep their diplomatic distance from the political minefield during the brief conflict.

As the dust continues to settle from the war, it is clear that certain APEC economies have been and

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DIRECTOR'S NOTES

WELCOME TO BASC NEWS. In this issue we focus on broader security and economic issues facing APEC negotiators in the wake of the "War on Terrorism." The range of analyses and viewpoints presented in this issue indicate that the future of APEC rests largely on its success not only at fulfilling its traditional economic mission, but also at effectively dealing with security issues in a world of global terrorism.

In *BASC Analysis*, Kent Calder and Min Ye of Princeton University examine an "organization gap" that has persisted in Northeast Asia and the new diplomatic challenges that such a gap increasingly poses. They emphasize that crisis-driven decisions at critical junctures, rather than gradualism, will most likely determine the future profile of regional organization in Northeast Asia.

Our *BASC Spotlight* in this issue falls on Thailand, which will be hosting this year's APEC summit meetings in fall. Henluen Wang evaluates the new policy initiatives in the post-financial crisis Thailand. Although Thailand clearly seeks more policy au-

tonomy, it remains to be seen whether it will successfully navigate through the global pressures of market competition.

In *APEC Update*, Janna Bray reviews how APEC has been dealing with new challenges such as the War in Iraq and the SARS epidemic in the first half of this year. One of the most consistent topics on APEC's recent agenda has been security. As she points out, however, APEC's new approach incorporates the issue of terrorism in one of the sub-themes of the 2003 meetings rather than allowing it to overshadow the other agenda, as it did in the two previous summit meetings.

Finally, our *BASC Book Review* discusses two edited volumes, *Winning in Asia, Japanese Style: Market and Nonmarket Strategies for Success* (Palgrave Macmillan, 2002) and *Winning in Asia, American Style: Market and Nonmarket Strategies for Success* (Palgrave Macmillan, 2003). Using different case studies, the contributors to these two volumes persuasively examine the most successful market, nonmarket, and organizational strategies for Japanese and American businesses operating in East Asia.

BASC CONFERENCE UPDATE

On March 21-22, 2003, the Berkeley APEC Study Center held its annual conference meeting, which focused on the ongoing project, "Bilateral Trade Agreements in the Asia-Pacific Region: Origins, Evolution, and Implications." This project aims to address the following three sets of questions about the ascending role of bilateral free trade arrangements (FTAs) in the Asia-Pacific region: (1) Why does bilateralism develop? How does the context of informal and formal trade relationships drive the formation of bilateral agreements? (2) How will bilateralism evolve? What are the different paths that bilateralism might take? Will it be deepening or widening? Trade Diverting or Trade Creating? and (3) How will bilateralism impact other types of trade arrangements? Will it play a complementary or substitutive role? Will conflicts arise over different accords and spill over into the broader political relations among states?

As the first of a set of conferences to discuss

these issues, this meeting was extremely productive and informative. The discussions at the conference incorporated theoretical, empirical, and policy-relevant examinations that brought together a variety of different methods and approaches. This diversified approach included a comparative theoretical framework on the various modes of trade strategies, developed by Principle Investigator Professor Vinod Aggarwal, and institutional and economic analyses of crucial trends in bilateralism in the Asia-Pacific region, presented by Professor John Ravenhill of the University of Edinburgh and Fukunari Kimura of Keio University. These different approaches were added to the nuanced analysis offered by the different case studies that were presented to explain the incentives and strategies of individual states in regard to bilateral FTAs. These case studies were

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Thailand's Road to International Redemption

BASC SPOTLIGHT

by Henluen Wang, BASC
Research Assistant

Following the baht's visible fall from grace in 1997, Thailand has been fighting an uphill battle to redeem itself in the international arena. Certainly, Thailand has had much to tout since then—having dragged itself from a 10% contraction and embarrassing \$17 million IMF bailout in 1998 to a 3.5% growth rate in 2003, reduced its non-performing loans by 37%, and restructured more than \$30 billion worth of corporate debt. Yet these accomplishments should be taken in measure—the rules of the game have changed since the Asian financial crisis. The Thai government, under Prime Minister Thaksin Shinawatra, faces numerous challenges as it encounters new global pressures for reform, seeks to promote its own domestic and international agenda, and tries to sustain economic growth, especially as it strives to replicate the “Asian Tiger” developmental state model of growth.

From the outset of the Asian financial crisis, global pressure attached to foreign aid and direct investment, namely from the United States, has been strictly along the lines of the “Washington Consensus.” This is evident in the conditionalities set by the IMF in its bailout package to Thailand, and more recently by the foreign aid index proposed by President Bush that assesses the amount of aid that the US will give to developing countries based on a composite that considers, among other things, the country's trade policy and inflation. Yet, the possible dangers of following the “Washington Consensus” and its agenda of liberalization was illustrated by the Asian financial crisis, where the international push and subsequent giddy acquiescence of the Asian countries to liberalize too much and too quickly resulted in a flood of foreign direct investment into markets ill-equipped to handle such massive inflows of capital. Governments were further chained to the liberal agenda through

the conditions set in the IMF bailout package, whose heavy reliance on macroeconomic “reforms” resulted in widespread bankruptcies and unemployment, and ultimately in a deepening recession. Clearly, the question of liberalization became one of timing and magnitude—a question that the market alone had failed to adequately answer.

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The current Thaksin administration came to power in 2001, elected by a people who had keenly felt the economic repercussions of the failed liberalization policies under the previous administration. Promising massive reforms, the telecom tycoon's controversial “Thaksinomics” closely followed the export-led industrialization and bureau-politic developmental state model utilized by Japan and Korea. Thaksin has since promoted increased government intervention to protect domestic companies and markets and to direct growth—to the great chagrin of liberal policymakers and investors. Expressing the administration's rationale, Kongkiat Opaswongkarn, executive director of the Thai Chamber of Commerce, said, “Several years after the crisis it shows a 100% Western approach does not necessarily work in this part of the world. Letting the market decide where the equilibrium point is would have completely massacred most Thai entrepreneurs.” The policy shift can be observed in three key areas: the government, the industrial sector, and regional trade.

Government- Praising the strong government intervention in Singapore and Malaysia, Thaksin has systematically strong-armed and centralized economic policy-making under his wing. He has

foregone the long tradition of joint economic ministers' policy meetings for “strategic committees” made up of his closest advisors. He also increased the Prime Minister's budget by 250% that year. Locally, state banks have been pushed to lend on government-policy lines to support small and medium-sized firms. Government money is also being spent on local economic stimulation and to revitalize the stock and property markets.

Industrial sector- In regards to directing growth, finance minister Somkid Jatusripitak explained, “The government aims not to be a saviour but a venture capitalist.” The strategy has been twofold: first to develop the nation's internal industrial capabilities through industrialization and technology transfer; while simultaneously positioning Thailand to be a commercial hub of Southeast Asia.

Having enjoyed a favorable reduction of interest rates by the government, the construction goods industry enjoyed the highest rate of growth this year, with the communications and property development sectors also booming. To support commercial growth, policymakers have been actively promoting the food, fashion, entertainment and tourism industries. Ultimately, the strategy is aimed at positioning Thailand as the “Italy of the East,” based on its comparative advantage in natural resources and its rich culture and history. Projections are that the entertainment industry alone will enjoy a 23.8% growth in net profits this year.

Regional trade- Thailand has pursued increased communication and cooperation with its neighbors in hopes of creating greater regional economic stability and overall prosperity. This is especially true of Thailand's relationship with China. Despite the fact that China's high growth prospects and incomparable economies of scale continue to drain the Southeast Asian economies of foreign direct investment and exports,

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intermediate products to China are expected to increase substantially as a result of the Chinese WTO accession.

Investment ties within Northeast Asia are also deepening rapidly. Since 1997, all but one (ironically, Japan Tobacco, given the Chinese propensity for smoking) of the 19 leading Japanese Fortune 500 industrial companies have invested in a total of 205 projects in China. The five leading Japanese general trading companies – Mitsui, Mitsubishi, Itochu, Marubeni, and Sumitomo – have also established a substantial infrastructure in China, both in manufacturing and in marketing. Since mid-2002, the three top Japanese auto producers – Toyota, Honda, and Nissan – have also announced decisions to build major new plants there. Due to the explosive expansion of the Chinese economy, Japanese firms now invest in China not only to create a cost-effective global export platform, but also increasingly to target the Chinese market itself.

Cross-investment between Japan and South Korea is also rapidly deepening, especially in software and consumer electronics. Since the Asian financial crisis of 1997-1998, South Korea has gone through systematic reconstructive economic reforms, and sharply improved its foreign investment environment. More investment from abroad has flowed into Korea since the crisis than in the country's entire previous history.

Korea also has become more aggressive in establishing itself as "the hub of Northeast Asia" and has invested more heavily in the broader region, including the Russian Far East, Shandong, and Northeast China. Much of this investment has also been quite profitable. In 2001, for example, South Korea's investment in Asia, including China, earned high returns while that in other regions, including North America and Europe, suffered net losses. For instance, as of 2001, the Export-Import Bank of Korea announced that the return rate of Korean FDI in Asia was as high as 11.5% (in China, 11.2%), and the figure for FDI in North America and Europe was -64.5% and -55.7% respectively.

China's December 2001 entry into the World Trade Organization is becoming an important new force for further economic integration within the region. By establishing more stable parameters for corporate activity and the expectation of further liberalization, the WTO agreement has already accelerated new investment into China. Indeed, in 2002 China attracted more direct foreign investment than any other nation in the world, including the United States. *World Investment Prospects 2002* predicts that, over the next five years (2001-2006), FDI in China will double.

China's WTO entry is stimulating not only investment, but also intra-regional trade relations within Northeast Asia. Tariff reductions, deregulation, and simple Chinese market expansion are triggering a surge of Japanese and Korean petrochemical exports, and related plants and equipment exports to China.

Korea's regional hub status looks likely to be reinforced by China's entry into the WTO, as multinationals seek a stable, democratic, and developed base from which to serve East Asia's most rapidly growing major market. Stimulated by China's growth, which is synergistic with nearby Korea's, Seoul and other major Korean centers are becoming an increasingly important focal point for R&D and related multinational support activities that cannot be performed as expeditiously in China itself. Japan, ranked as the number one beneficiary of China's WTO membership, is expected to pocket as much as \$61 billion over the next five years in enhanced corporate earnings as a result of China's accession, according to *World Bank China 2020*. The same source also estimated that the total gain for the United States, Canada, and Mexico combined would be only \$38 billion. The chief economist of Nomura Research Institute, Kiyohiko Fukushima, recently noted that, as a response to rising prospective commercial interest, Japan has already established close ties

with China's Silicon Valley, the Haidian region of Beijing.

Much of the new investment in China, as discussed earlier, is flowing from Japan and Korea, especially in such sectors as autos and electronics. Still more is coming from Taiwan. There the legal protections afforded to outside investment by China's WTO accession are considered especially important as they reduce the painful legal ambiguity that has traditionally plagued cross-straits commercial relations.

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In the past few years, Taiwan exported over \$20 billion worth of industrial materials (raw materials, parts and intermediate products) to mainland China annually, and imported only \$4 billion to \$5 billion in mostly finished products from China, running an annual surplus of around \$15 billion. In trade with the rest of the world excluding China, Taiwan is chalking up a deficit ranging from \$5 billion to \$9 billion each year. Therefore, it is apparent that Taiwan has piled up its foreign exchange reserves of over \$100 billion largely thanks to its trade surpluses with China. Since China and Taiwan both joined the WTO, Taiwan's restrictions on investment in China have been gradually eased, and regional trade interdependence accelerated even further. WTO provisions are also likely to provoke a surge after 2005 of Chinese apparel exports to the broader region, as well as rising mutual interdependence in services.

A final economic force for regional integration at work is the spiraling accumulation of foreign-exchange surpluses in Northeast Asia. Led by Japan, with over \$450 billion in foreign exchange reserves, the three Northeast Asian economic powerhouses have amassed well over a third of the foreign-exchange reserves in the entire world. This gives them both a common interest in regional financial stability and the means to achieve it.

Steps toward Deeper Political-Economic Entente?
Regional political integration, not surprisingly,

has begun in the financial realm. In May 2000, the three Northeast Asian financial powers combined with ASEAN to forge the Chiangmai agreement to establish regional foreign-exchange swap quotas. Next year, when that agreement is up for renewal, the prospects are strong that the ASEAN plus Three (APT) nations will move to institutionalize their financial cooperation more concretely.

A decade ago Mohammed Mahathir's East Asian Economic Caucus (EAEC) initiative from Malaysia fell flat on its face. Yet regionalist forces have already made recent headway in the financial area with the Chiangmai agreement, as suggested above. Where is Northeast Asia regionalism headed from here?

Things are made easier for regionalist forces by the increasingly "nested" character of international political-economic relations. As Vinod Aggarwal and others have pointed out, the three major Northeast Asian economies are all WTO members, and hence bound by common global rules of behavior. Japan, South Korea, and the United States are also bounded together by a "virtual alliance" of parallel bilateral security ties. These multiple cross-cutting relationships reduce the consequences of both inclusion in or exclusion from any one other given group, and thus make involvement in any given regionalist grouping less threatening to outside powers such as the United States.

Past history in Northeast Asia shows that major developments in regional organization are driven not by the planning of economic bureaucrats, but by political decision at "critical junctures." Thus the "hub and spokes" structure of postwar political-economic relations was heavily influenced by the leadership of John Foster Dulles in his construction of the San Francisco Peace Treaty framework at the height of the Korea War. Similarly, the Chiangmai financial agreement of May 2000, was decided by the ASEAN plus Three national leaders themselves rather than by their technocratic subordinates.

Crisis-driven decisions at critical junctures, rather than gradualism, will most likely also determine the future profile of regional organization in Asia. North Korea's future could well present the key element of such junctures. Developments in North Korea could be a catalyst for new or expanded regional organization along three dimensions, with a crisis provoking the organizational developments.

Stronger regional organization, first of all, could be needed in the financial realm. Institutionalized cooperation could be useful, for example, to forestall the possibility of foreign-exchange crises related to the sudden collapse of a North Korean regime. It could also be useful in coordinating economic reconstruction, or refugee relief.

A Korean crisis could also be a catalyst for regional organization in many fields of security. Mutual balanced force reductions and non-proliferation assurances, for example, would be important following sudden political change on the Korean Peninsula, such as a collapse of the North Korean regime, and some organization would likely be needed to coordinate such political-military understandings. Similarly inclusive sector-specific organizations would be valuable to promote economic development in such areas as energy and agriculture, much as the European Coal and Steel Community (ECSC) contributed to Europe's reconstruction half a century ago.

Some deepening of regional organization in Northeast Asia thus seems likely. Given the embeddedness of new regional bodies in the post-Cold War age, within such global institutions as the WTO, a deepening of regionalism, however, would not necessarily threaten broader political-economic stability. Such a deepening is likely to be driven by a regional political crisis related to sudden change in Korea. Such a crisis, despite its manifest dangers, could nevertheless be crucial in solving regional problems and maintaining stability between major Asian powers not involved in the ancient "hub and spokes" security framework—such as China and status-quo powers such as the United States.

BASC SPOTLIGHT

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it will be the first country Thailand establishes a bilateral FTA trade agreement with. Allying itself with the emerging power would mean greater regional bargaining power and international pre-eminence relative to its more equitably matched Southeast Asian neighbors. Moreover, China's emergence as a regional power could bring stability.

Yet, adopting the developmental state approach is not an end-all cure to Thailand's precarious economic situation—such a policy faces domestic and international challenges. Thailand's ability to develop strong domestic industries is contingent upon the bureaucracy's ability to adequately assess key industries and

effectively utilize resources. However, it is important to note that traditionally within the Thailand government, corruption is rampant. A World Bank study in 2000 confirmed that 40% of government jobs were gained through bribes. Indeed, Prime Minister Thaksin himself was accused of campaign fraud, of which he was cleared under suspicion of political maneuvering. These under-the-table deals undermine Thailand's ability to develop competitively, as connections take precedence over merit.

Moreover, Thailand must be able to convince the international community of the legitimacy of its interventionist policies. This has become more difficult since the Asian financial crisis, as Korea's developmental state was severely hit as well, causing many to question the efficacy of the growth model. The aforementioned state corruption further di-

minishes faith as it speaks to a lack of transparency within the government. These problems all have international investors wary of Thailand's growth potential, especially in comparison to prospects in China.

In the short-run, as Thailand hosts the 2003 APEC forum, the greatest challenge the country will face is diplomatic. Thailand will have to smooth over investor confidence with promises of or at least the appearance of government reform and liberalization. Reforms will be necessary in the long-run, where, as Thailand continues to grow its ability to compete internationally will depend upon structural reforms and the internationally demanded open markets. The question therefore remains, as it was, a matter of timing and magnitude—except this time the answer is left in the hands of the government, instead of the market.

BASC PROJECTS

by BASC Staff

BASC has conducted a number of original research projects, concerning the international political economy in East Asia, Latin America and Europe. Recently we have launched a research project on the EU and U.S. policy in world trade and security relations. Since launched last fall, our research projects on *Asia-Pacific Bilateralism* and *International and Domestic Dimensions of Mexican Trade Policy* have come to fruition. We have also finalized various projects, including *European, Japanese, and U.S. firms in Asia*, *European Transregionalism*, and *Strategies For International Trade and Politics in Latin America*.

With generous support from the Swedish Institute for European Policy Studies (SIEPS), the *New Bipolarity: EU and U.S. Policy in World Trade and Security Relations* project has started exploring how the broad organization of the international political economy affects key economic actors in the EU and the U.S., and how their inclinations to cooperate and/or compete in turn shapes the bigger picture. This research will give specific attention to international security relations and the arms trade, which is dominated by European and American firms whose tendency to both compete and cooperate in the transatlantic and international marketplaces, will shed light both

on how economic actors behave in this new bipolar era and on the issues that governments face in managing the political-economic arena in which they interact.

The *Asia-Pacific Bilateralism* project, funded by the Japan Foundation Center for Global Partnership (CGP), investigates the underlying causes of various APEC countries' embrace of bilateralism, as well as its policy implications for both APEC countries themselves and the broader international trading system. The first conference was held in Berkeley in March 21-22, 2003 and the second one will be in Hawaii in December 5-6, 2003 (see page 2).

Since last fall, BASC has been cooperating with the Centro de Investigación y Docencia Económicas (CIDE) in Mexico City on the project *International and Domestic Dimensions of Mexican Trade Policy*. Supported by the University of California Institute for Mexico and the United States (UC MEXUS), this research focuses on various domestic and international dimensions of Mexico's trade policy formulation, especially in reference to NAFTA and to Mexico's rapidly evolving domestic political arena. The project culminated in a conference in Washington, D.C. in May 2003.

With the support of the Institute of European Studies at U.C. Berkeley, BASC is also conducting in-depth analysis of the viability of "trans-regionalism" as an emerging level of international trade relations. BASC convened a preliminary conference in September

2001 to explore whether incipient EU transregionalism would significantly impact the changing face of international trade. Our final meeting for this project was held in Brussels in October 2002.

The three years of our *European, Japanese, and U.S. firms in Asia* project, funded by the CGP, have proven to be very successful. The first volume of our work appeared in August 2001 as *Winning in Asia, European Style: Market and Nonmarket Strategies for Success*. Our second volume, *Winning in Asia, Japanese Style: Market and Nonmarket Strategies for Success*, appeared in October 2002. The third volume, *Winning in Asia, American Style: Market and Nonmarket Strategies for Success*, was published in June 2003 (see page 8).

The collection of papers generated by the project *Regional and Transregional Trade Strategies in Latin America*, which was launched with a conference at the Woodrow Wilson Center in Washington, D.C., will be published in 2003 by the Wilson Center Press in collaboration with Stanford University Press. These papers include analyses of the strategic calculations behind various regional and bilateral trade accords across the hemisphere and in-depth case studies of the trade strategies of Argentina, Brazil, Chile, and Mexico. This project enjoyed support from the Latin American Program of the Woodrow Wilson Center, the Berkeley Center for Latin American Studies (CLAS), and the Clausen Center at the Haas School of Business.

THE U.S. APEC STUDY CENTER CONSORTIUM

announces that Professors Vinod K. Aggarwal (U.C. Berkeley) and Richard Feinberg (U.C. San Diego) have recently been appointed to serve as its co-chairs. Currently there are about 13 centers affiliated with the consortium and many more are expected to join. Bringing together the potentials and best practices of all APEC study centers in the U.S. is one of the primary goals of the consortium. A new website is under development and is scheduled to launch in August 2003. For more details, e-mail at basc@globetrotter.berkeley.edu

BUSINESS AND POLITICS

This international journal explores the strategic space in which governments and firms interact. It focuses on two areas: the integration of market with nonmarket corporate strategy, including organizational design, legal tactics, and lobbying; and government efforts to influence firm behavior through regulatory, legal, and financial instruments. The forthcoming April 2003 special issue focuses on business and judicial politics, with an introduction by Frank B. Cross. Articles include Pablo Stiller and Richard Vandenberg on a positive theory of state supreme court decisionmaking, An-



drew Whitford on interest coalitions in environmental litigation, Isaac Unah on corporate litigation activity, and Matthew Manweller on understanding tort reform.

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APEC UPDATE

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will be rewarded by the U.S. for their support of the war. Australia has already announced that it has been in talks with the U.S. and Britain about post-conflict issues, including market access and reconstruction contracts. Australian Prime Minister John Howard's April visit to President Bush's Texas ranch and the subsequent announcement that the U.S.-Australia free trade agreement will be put on the fast track evidences the fact that Australia is being compensated for its support of the war. Similarly, Singapore, which acted as a wartime ally to the U.S., finally concluded a long-awaited trade agreement with the U.S. in early May. The Bush administration is said to have sped up the negotiation process of this agreement to reward Singapore for allowing U.S. warships to routinely use its deepwater port.

Although a few APEC economies are being rewarded for their active involvement in the war, countries that opposed military intervention are being excluded from bilateral trade negotiations with the U.S. Specifically, New Zealand Prime Minister, Helen Clark, who vocally criticized the U.S. during the war, was visibly excluded when U.S. trade officials went to neighboring Australia in early March to begin official talks on a trade agreement. Although APEC often claims that it is an economic body that is sheltered from political turmoil, recent trade negotiations suggest that the so-called "partnership" of this year's conference is much tainted and does not truly capture the reality of economic interactions and negotiations between APEC members.

Besides the war and post-Iraq turmoil, APEC 2003 has to deal with the spread of SARS, which has caused many APEC members significant economic tolls in the first half of 2003. Yet an evaluation of APEC's efforts against the spread of SARS reveals that during the most severe points of the epidemic, APEC took little action to directly combat the spread of the dis-

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ease. Although the APEC Emerging Infections Network (EINet) did meet to discuss the disease during the crisis, APEC's overall response to SARS was extremely limited. Similar to the disjointed response to the war in Iraq, APEC did not come together to confront the problem of SARS as a united front. Instead, each APEC country that was affected by SARS dealt with the disease on an individual basis.

Not surprisingly, one of the most consistent topics on APEC's recent agenda has been security, which overshadowed the APEC agenda at the 2001 Shanghai Summit in the wake of the September 11, 2001 attacks. Soon after the Shanghai meetings, APEC 2001 came to a close and the burden of actually dealing with terrorism fell on the 2002 meetings hosted by Mexico. With the U.S. at the helm, APEC 2002 embarked on confronting terrorism as an immediate priority. Although many critics lamented APEC's new and almost exclusive though tentative focus on security, APEC was the only forum that could bring together the countries in the Asia-Pacific region for a large-scale discussion about security. The

car bombing on the island of Bali, which occurred two weeks before the 2002 Los Cabos meetings, dramatically reinforced APEC's central focus on security.

Substantively speaking, APEC 2002 did not offer a well-defined action plan against terrorism. A vague renunciation of terrorism caused many to accuse APEC of ignoring the underlying causes of terrorism, such as poverty and inequality. Thus, by the end of the 2002 APEC meeting, many participants and observers felt that although terrorism had dominated the APEC agenda, no real progress on the issue had been made.

The 2003 APEC meetings in Thailand are likely to deal with terrorism somewhat differently, though. Unlike in the two previous annual meetings, terrorism no longer completely dominates the APEC agenda. Instead, APEC's new approach to terrorism is seen in one of the sub-themes of the 2003 conference, "promoting human security through social safety nets and human resource development." This recognition that security is a multifaceted issue that requires more than just militaristic considerations shows that APEC is examining the issue of security on a deeper level.

Indeed, APEC's limited response to the conflict in Iraq and the spread of SARS legitimately calls into question APEC's ability to confront global problems, and makes many observers fear that APEC's recent focus on security is merely rhetoric that will not translate into direct action. APEC 2003 has faced war and disease, yet progress in terms of economic integration can still be made. In order for APEC 2003 to make real progress it will be necessary for APEC to strengthen its ability to act on its attainable goals. In this regard, this year's APEC meetings pose a critical test for the future direction of the forum.

CONFERENCE UPDATE

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conducted through theoretically informed and in depth analysis of the U.S., Japan, China, South Korea, Taiwan, Singapore, Malaysia, Thailand, and Mexico. The next conference on bilateralism will be held in Hawaii in December 5-6, 2003 and the findings of both conferences will be published in a book volume in the fall of 2004.

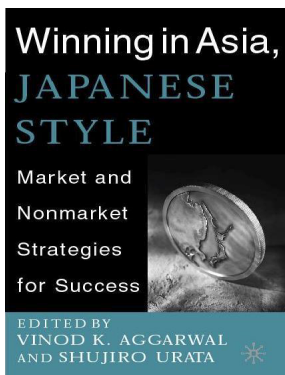


The 2003 Asia-Pacific Bilateralism Conference was held at the University of California, Berkeley from March 21-22.

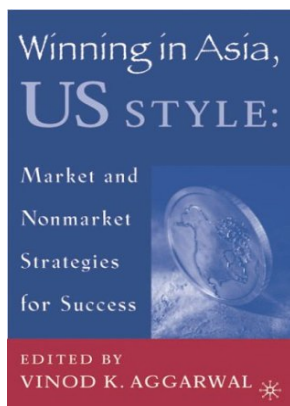
BASC BOOK REVIEW

by BASC Staff

Winning in Asia, Japanese Style: Market and Nonmarket Strategies for Success, edited by Vinod K. Aggarwal and Shujiro Urata (New York: Palgrave Macmillan) 2002.



Winning in Asia, U.S. Style: Market and Nonmarket Strategies for Success, edited by Vinod K. Aggarwal (New York: Palgrave Macmillan) 2003.



East Asia includes many of the world's fastest growing markets, and promises to be a dynamic and fiercely competitive area for decades to come. The purpose of these two volumes is to identify the most successful market, nonmarket, and organizational strategies for Japanese and American businesses operating in East Asia. Using different case studies, the contributors

to these books compare and contrast the strategies that Japanese and American firms have implemented and the success with which they have done so.

Vinod K. Aggarwal, the editor of *Winning in Asia, U.S. Style* and co-editor with Shujiro Urata of *Winning in Asia, Japanese Style*, notes that before firms can formulate a successful strategy, they must consider not only the market conditions in which they operate, but also the nonmarket regulatory and political environment, and their own specific core competencies. At the same time, he emphasizes that firms must consider the interlocking nature of their businesses at the national, regional, and global levels. The broad set of sectors covered by the case studies unveils a spectrum of experiences from which we can draw in generalizing about optimal market, nonmarket, and organizational strategies.

WINNING IN ASIA, JAPANESE STYLE

The authors provide valuable comparisons of Japanese firm strategies with American or European firms. Vinod K. Aggarwal offers a theoretical framework to analyze Japanese firms' market and nonmarket strategies in Asia. Shujiro Urata, the co-editor of this volume, examines the overall patterns of Japanese trade and investment in developing Asia. The case studies in banking, chemicals, autos, telecommunications, software, and consumer electronics, provide an insightful positional analysis of the market and nonmarket environment, and strategic and tactical analysis. Finally, Vinod K. Aggarwal concludes the volume with lessons from Japanese firms' strategies in Asia.

According to the authors, Japanese firms have benefited from the increased rivalry among firms by utilizing a plethora of market strategies (cost cutting, introducing new services, product and restructuring, addition of higher value-added goods) and a variety of nonmarket strategies (lobbying the government to enhance firms' competitive positions). Japanese firms have both promoted and obstructed market access by utilizing market mechanisms (seeking new markets) and nonmarket mechanisms (firm-government partnerships, courting foreign governments, creating structural barriers to entry). Japanese firms benefit from the power of buyers in a market context by utilizing pre-

existing links to find ready customers and in a nonmarket context by calling on the Japanese government and international financial institutions to create repayment guarantees.

WINNING IN ASIA, US STYLE

As a relative latecomer, US firms have faced significant market barriers to entry in Asia. However, successful American firms have harmonized their strategies across all three areas: market, non-market, and organizational. In terms of firm competition, products, service, and technological innovation have been critical for US firms as they focus on niche markets in which they have a comparative advantage. Nonmarket strategies have focused on developing relationships with host countries while appealing to multilateral organizations when necessary. Organizational strategies have involved refocusing on core competencies and strategic mergers. US firms have also invested in local, regional, and global production networks to cope with fluctuations in supply and demand.

Vinod K. Aggarwal offers a theoretical framework to analyze American firms' the market and nonmarket strategies in Asia. Shujiro Urata examines American trade and investment patterns in developing Asia. The sector-specific analyses detailed in the book provide an insightful positional analysis of market and nonmarket environment, and strategic and tactical analysis of American firms in Asia. These analyses cover accountancy services, chemicals, automobiles, telecommunications, software, and the consumer electronics industry. Finally, Vinod K. Aggarwal concludes the volume with lessons from American firms' strategies in Asia.

An understanding of the strategies employed by Japanese and American firms in penetrating Asian markets will advance our understanding of the roles played by different home governments as well as the unique characteristics of firms of different nationalities. Although firms must continue to anticipate changes in Asian markets, the analytical framework provided in this book, together with knowledge of how firms have attempted to compete in Asia in the past, will give firms the foundation for creating a winning edge. For scholars, the complexity of business-government interaction in Asia should ensure that this topic will remain a fruitful area of research for years to come.