



## Letter from the Publisher

Dear friends, it is our pleasure to inform all of you that we are now publishing a quarterly periodical called *Asia-Pacific Today*. We are delighted to present this inaugural issue for your reading enjoyment.

It has come to our attention that most of the publications focusing on issues of relevance to the Asia-Pacific are academic journals and newsletters on current events. We believe that there exists the need for a periodical that provides short commentaries, analyses, and suggestions regarding economic, political, social and cultural issues facing our area. An important purpose is to share ideas first and then to exchange views among scholars, students, government officials and people that care about the development of the Asia-Pacific region. This periodical can serve as the platform for us to communicate with each other. We also expect that topics raised in the articles could lead to more serious research. Therefore, we kindly request our readers to offer feedback to the authors.

As you can see in this initial offering, several of the authors are researchers at TIER. However, we certainly welcome our friends to contribute articles. We truly want this periodical to be the place for everyone to voice his/her views on issues significant to the Asia-Pacific region. I sincerely hope that all of you enjoy our periodical. Finally, we truly welcome your comments.

Sincerely,



Dr. David S. Hong

President, Taiwan Institute of Economic Research (TIER)



*Asia-Pacific Today* <sup>1</sup>

## Table of Contents

- Globalization and Prosperity through Community Building** *by Dr. David S. Hong*  
(President, Taiwan Institute of Economic Research)
- Why FTAs in Asia-Pacific, if APEC Can be Fixed** *by Dr. Hadi Soesastro*  
(Executive Director, Centre for Strategic and International Studies, Indonesia)
- Nuclear Proliferation in North Korea**  
**—About American Diplomacy and the Problems of Power** *by Professor Thorsten Spehn*  
(Adjunct Professor, Department of Political Science, University of Colorado at Denver, USA)
- Corporate Governance for Financial Institutions** *by Dr. Lawrence Lee*  
(Associate Professor, Department of Law, Ming Chuan University, Taiwan)
- APEC Means Community**  
**—Deepening the Bogor Goals and Strengthening the Mid-term Stocktake** *by Dr. Johnny C. Chiang*  
(Deputy Director, Division of International Affairs, Taiwan Institute of Economic Research)
- The Challenges of "ASEAN Plus Three"** *by Dr. Mignonne Man-Jung Chan*  
(Research Fellow, Taiwan Institute of Economic Research)
- Major Things to Know about APEC's ECOTECH Work** *by Dr. Chen Sheng Ho*  
(Associate Research Fellow, Taiwan Institute of Economic Research)
- The Advent of Globalization and its Impacts on Sovereignty** *by Dr. Shunyo Liao*  
(Associate Research Fellow, Taiwan Institute of Economic Research)
- Creating an Organizational Paradigm for Strengthening PECC** *by Darson Chiu*  
(Assistant Research Fellow, Taiwan Institute of Economic Research)
- Korea's Lessons for Taiwan: Film Industry Policies** *by Florencia Huang*  
(Assistant Research Fellow, Taiwan Institute of Economic Research)

### Notes for Contributors

Asia-Pacific Today is an open forum. The Editors welcome submission of theoretical, policy, commentary articles, research notes, and book reviews on Asia-Pacific Today. The periodical's fields of interest include economic affairs, political issues, international relations, business tendencies, and cultural analyses in Asia-Pacific area. Please be advised that articles published here will not receive remuneration.



# Globalization and Prosperity through Community Building

*David S. Hong*

## **Globalization and Prosperity**

As it was declared at the Shanghai APEC Economic Leaders Meeting, "there is an ongoing public debate on the benefits and costs of globalization." To some, globalization is the process that led to prosperity and resulted in enhancing the living quality of all people. Nevertheless, the others consider globalization as a tactic utilized by developed economies to further exploit valuable resources from developing economies and to sustain their dominance.

There used to be a "global consensus" that globalization was good for developing economies to develop and flourish, and the time for believing so was in the 1980s and early 1990s. However, an opposite opinion has been strongly expressed starting from the late 1990s that globalization could do more harm than good to some developing economies. The promotion of globalization mainly conducted by developed economies and the movement of anti-globalization supported by some developing economies have generated significant conflicts around the world. Regardless of these two very different views, it is certain that globalization is an irreversible and inevitable trend that we all have to deal with sooner or later.

## **APEC and Community Building**

Let me quote the following declaration from the Brunei APEC Economic Leaders Meeting, "...as Leaders, bound by a sense of shared prosperity and a mutual understanding of the difficulties in each of our economies, we resolve to address the wide disparities in wealth and knowledge and bring the benefits of globalization to all our people." I do not intend to argue about the good versus evil sides of globalization, but to echo the APEC Leaders' declaration above. My emphasis is on one of the

major contributions of globalization, that is to bridge the gap between developed and developing economies via adopting appropriate policies, particularly the policies associated with community building in the APEC region.

In APEC Economic Leaders' Declaration of 2000, the Economic Leaders stated that, "our vision is to prepare each of our economies and all of our people to use the technology revolution as a passport to the fruits of globalization." Furthermore, APEC Economic Leaders continued to make relevant declaration in 2001, "the goal is to build APEC towards a digital society, with higher growth, increased learning and employment opportunities, improved public services and better qualities of life by taking advantage of advanced, reliable and secure information and communications technology and networks and by promoting universal access." In response to the call from APEC leaders, Chinese Taipei, as a dedicated APEC member, has managed to reach out a helping hand to other member economies. "Transforming the digital divide into a digital opportunity" was a proposal related to community building, presenting to APEC and proposed by Chinese Taipei.

## **Our Efforts to Strengthen Community Building**

Chinese Taipei realized then the process of globalization under way faced greater challenges that were related to bringing together economies at different levels of development. We have noted that the growth of e-Commerce in the Asia-Pacific region and a high-profile barrier to the successful integration of e-Commerce into the region was the presence of a digital divide. Because some developing APEC economies lack sufficient skills to facilitate the necessary development of e-Commerce

# Asia-Pacific Journey

throughout the community, we believe community building with appropriate applications, such as experience sharing, empirical training and technological cooperation can produce some major positive effects on e-Commerce promotion, which could result in the narrowing of the digital divide. This project proposal initiated by Chinese Taipei and endorsed by the Ministerial Meeting in 2000 includes two phases. Phase one is a generic training on areas related to e-Commerce and the phase was successfully completed after a major conference that was held in Taipei last year. Phase two is to further assist some developing economies to digitalize public and private sectors and to enhance business opportunities, especially opportunities for small and medium enterprises. The project is scheduled to finish at the same time as the completion of phase two this year.

In addition, the private sectors of Chinese Taipei have planned to go one step further in assisting member economies to taste the "fruits of globalization". Chinese Taipei stands ready to make further contribution for assisting with the creation of a digital society by proposing two initiatives, "Fostering IT Schools for the Information Age" and "APEC Digital Opportunity Center (ADOC)". These initiatives are about mobilizing private sector participation in providing telecommunication equipments, computers and technical assistance to schools of selected APEC member economies. The objectives are to ensure Internet access to students, to provide the Internet accessing skill, to enhance students' computer operating skills, to enable students to utilize the information accessible from the Internet, and to broaden their knowledge base on APEC and its goals. This two initiatives target APEC developing economies that are inspired to elevate their capacity in information and communication technology. A solid support from the private sector of Chinese Taipei has been generated for this initiative, in order to allow for the launch of the proposed program.

These initiatives mentioned can be considered as our ways of community building to maximize the benefits of globalization, which are to bridge the digital divide in the Asia-Pacific region, to narrow the gap between developed and developing economies, and to build an ideal digital society. The

future support to them could come in the form of financial resources and technical expertise from all APEC developed economies, so as to expand and sustain these programs. To further seek backing from digitally pioneered APEC economies, I would suggest that the APEC Secretariat utilize its existing and well functioning communications and outreach mechanism to promote these initiatives. Furthermore, the media can also play an important role by widely delivering the information to the public and private sectors within the Asia-Pacific region. With the assistance from the APEC Secretariat and media, we should be able to obtain more potential helpers and actualize the ideal plans. Let me conclude by suggesting benefits of globalization could be maximized through appropriate community building strategies and policies.



# Why FTAs in Asia-Pacific, if APEC Can be Fixed?

*Hadi Soesastro*

## **Whither FTAs in the Region?**

FTAs in Asia-Pacific have not promoted community building in Asia-Pacific. To the contrary, they might have weakened it. Perhaps the main contribution of FTAs is the strengthening of relations, especially political relations, between the countries involved in them. The web of bilateral FTAs that has resulted has become unwieldy. But most importantly, not all countries in the region can or will engage in the forming of such FTAs. Indonesia is not actively involved in this process. There are other reasons why other countries in the region, including Taiwan, might also not take part in this process.

In 2004 more FTAs (free trade agreements) or PTAs (preferential trading arrangements) involving Asia-Pacific economies are being negotiated. The many bilateral and sub-regional FTAs being formed in the region may all be so different in scope and depth so as to make their future amalgamation a nightmare.

The region may have gained a greater momentum in forming FTAs since Thailand has followed Singapore's footsteps. Indonesia is showing some interest in forming bilateral FTAs. There is now a Committee on FTAs within the Indonesian government, but its agenda is largely driven by the offers made by other countries to form FTAs with Indonesia. Unlike Singapore or Thailand, Indonesia does not pro-actively select countries as its potential FTA partner. The Indonesian government does not have an overall strategy guiding the formation of bilateral FTAs as a trade policy option. The chief Economic Minister is not a promoter of bilateral FTAs. The FTA Committee is under the purview of the Minister of Industry and Trade, whose policies on this matter remain unclear. Thus, Indonesia's involvement in forming bilateral FTAs is likely going to be an extremely slow process. Negotiations within the ASEAN framework (e.g. ASEAN-China) will

continue but they will not receive sufficient attention from Indonesia's political leaders and the ministers in charge. Much will be left to the bureaucracy that acts under no clear guidance.

Indonesia may now be examining this trade policy option more seriously largely in response to offers by a number of countries. It will definitely give priority to FTAs with countries that it regards as politically and economically important, namely Japan and the United States. These two countries have made the approaches to Indonesia at the highest level. President Bush launched the Enterprise for ASEAN Initiative (EAI) at the APEC Summit in Mexico. This was followed up by a visit by U.S. Trade Representative Robert Zoellich to the region, including Indonesia. A Japan-Indonesia FTA was proposed during President Megawati's official visit to Japan in 2003.

To a large extent, Indonesia's interest in bilateral FTAs has been aroused by the recent upsurge of FTA negotiations involving its closest neighbors. It was rather indifferent when Singapore began the process, and later concluded a number of agreements, because it did not see this as threatening. In fact, some in Indonesia thought that Indonesia could benefit from Singapore's FTA as it might use Singapore as a back door to penetrate other markets. Of course Singapore's FTA partners will prevent this from happening, among other things by insisting on rather restrictive rules of origin (ROO) provisions. This certainly appears to be the case with the Singapore-Australia FTA.

When Thailand began to show interest in negotiating a host of FTAs, including with the main markets for Indonesia (China, Japan, etc.), a sense of unease began to slip in, leading to more serious consideration on the need for Indonesia to do the same, essentially for defensive reasons.

Indonesia only has a very modest list of candidates with which it might study the prospects for bilateral



FTAs. Most of these candidates, e.g. Iran, Pakistan, Bangladesh, Chile and South Africa, are not significant trade partners. FTAs with any of these countries may be considered mainly as a training ground for the bureaucracy to engage in such negotiations. However, this will be useful only if such negotiation could start now. It appears that they no longer are countries with which Indonesia will negotiate first.

A main challenge for Indonesian negotiators is the likelihood that they will begin this exercise by negotiating with the most important, but also the most difficult, countries -- Japan and the United States. If they can do this right the pay-offs will be substantial. But the risks are also very great. It cannot leave such negotiating process to a bureaucracy that lacks expertise and stature. Unfortunately, Indonesia does not have an experienced negotiator like Singapore's Tommy Koh to rely on.

The learning process will be the most important aspect of the negotiations. In fact some kind of facilitation or technical assistance by Japan or the U.S. should be built into the negotiating process itself.

It is not immediately clear whether Indonesia should negotiate these bilateral FTAs in some sequence or simultaneously. It is also not clear how its on-going negotiations with China under the ASEAN-China framework agreement will affect other negotiations. Indonesia-China trade relations are full with contradictions. Some quarters in Indonesia are greatly alarmed by the prospects of a radical opening up of the Indonesian market to Chinese products. Others see great opportunities being created by a FTA with China for entering the Chinese markets. It remains to be seen which side can exert the stronger pressures on policy makers.

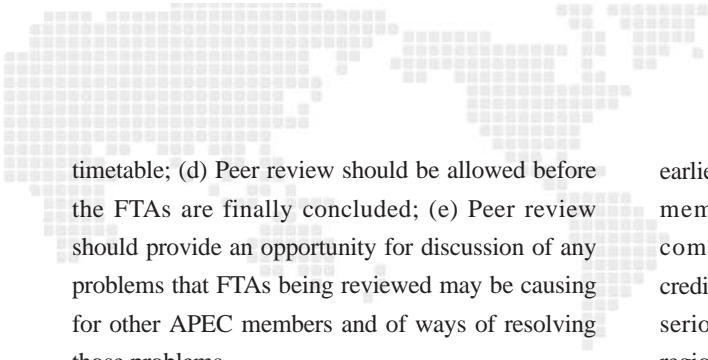
In the domestic arena, immediate efforts need to be made to come up with a clear understanding as to which sectors are likely to gain most from the FTAs and which sectors will be adversely affected by the FTAs. The former is necessary so that Indonesia can focus its efforts on those areas. The latter is important so that ways could be devised to lessen the likely negative impact. Domestic adjustments and reforms will have to be undertaken. It is often also the case that bilateral or regional FTAs can help promote domestic reforms. Indeed, an agreement with the U.S. is likely going to have the greatest effect on Indonesia's

economic reform agenda. Demands for reforms made by the U.S. side will be substantial. However, this should be done with great care, as widespread impressions of bullying by the U.S. will be counterproductive.

It does appear unavoidable that each bilateral agreement will be tailor-made. This is exactly why it may be difficult to amalgamate the many bilateral FTAs into a region-wide agreement at a later stage. Having this in mind, the PECC Trade Forum has proposed some kind of an "APEC Common Understanding on Regional Trading Arrangements" that lays out a set of guidelines for ensuring that FTAs in the APEC region do contribute to the achievements of APEC's objectives. East Asian countries should seriously take these guidelines into consideration when establishing bilateral or sub-regional FTAs. In its negotiations with the US and Japan, Indonesia could usefully be guided by such "common understanding".

The elements of this "common understanding" include the following:

1. Relation to the "pathfinder" concept: FTAs involving APEC economies should be fully consistent with APEC objectives and principles, and participation in the network of FTAs within the APEC region should, over time, become open to all APEC economies;
2. Conformity with APEC liberalization objectives: Liberalization and facilitation provisions of FTAs between economies must be extended to all APEC economies by the Bogor target dates. The timetable for liberalization should be consistent with the Bogor dates. MFN liberalization should proceed in parallel with the implementation of FTAs. All MFN barriers should be reduced to moderate levels as soon as possible. Elimination of peak tariffs and tariff escalation must be given priority;
3. Conformity with APEC principles in the Osaka Action Agenda: (a) Concessions provided within FTAs will be made available to all APEC members as soon as circumstances allow, but no later than the Bogor target dates; (b) It should be recognized that consistency with GATT Article XXIV and GATS Article V is a necessary but not a sufficient condition for ensuring that FTAs contribute to the achievement of APEC objectives; (c) FTAs should cover trade in both goods and services and should cover all sectors, with sensitive sectors being liberalized on a slower



timetable; (d) Peer review should be allowed before the FTAs are finally concluded; (e) Peer review should provide an opportunity for discussion of any problems that FTAs being reviewed may be causing for other APEC members and of ways of resolving those problems.

4. Consistency with other APEC principles: Where relevant, provisions in FTAs should be linked to the specific sets of Principles that APEC members have adopted (Non-binding Investment Principles, Principles on Competition and Regulatory Reform, etc.).

5. Promoting convergence and minimizing "spaghetti bowl" problems: (a) Rules of origin should be as straightforward as possible, and should be transparent, clear and consistent, and should not impose unnecessary compliance costs; (b) Adoption of harmonized provisions across FTAs should be encouraged, and this could be achieved by making use, whenever possible, of international standards and APEC-wide agreements and processes;

6. "Best practice" guidelines for PTA liberalization: Liberalization of both goods and services within FTAs should be made progressive and automatic.

7. Development dimension: FTAs should allow for assistance in capacity building to be provided.

To provide greater assurance that FTAs in East Asia could lead to a region-wide arrangement, leaders of the ASEAN Plus Three (China, Japan and South Korea) should agree to immediately launch a systematic effort to develop region-wide guidelines that eventually will be adopted as the basis for creating an East Asia Free Trade Area. It is here where Indonesia, and perhaps also Japan, should focus the attention to and make the biggest investment. Forming bilateral FTAs are, after all, a misguided effort.

### **Why Not Invest More in APEC?**

The year 2010 is seen as an important milestone in APEC's development. It is the year in which the developed members of APEC should achieve the Bogor goals of free and open trade and investment in the region. Should this indeed be the case, there will be strong pressures on the developing countries of APEC to achieve the same goals, perhaps even at an

earlier than the target date of 2020. Should developed members of APEC fail to deliver on their commitment, APEC will suffer from a loss of credibility. APEC members will no longer take APEC seriously. Community building in the Asia Pacific region, the big idea that brought countries in the region together in the first place in 1989, will falter. This could be the end of APEC.

There are concerns that the latter might be the case. A number of APEC members, developed as well as developing, have embarked on bilateral and sub-regional preferential trade agreements (PTAs), but these efforts may not lead to "free and open trade and investment in the region". However, this will depend on how the Bogor goals are being understood by APEC members. There is as yet no operational definition of what they really mean: zero tariffs across the board (no exclusion lists) in trade, removal of all non-tariff barriers, and no negative lists in cross-border investment?

In 2001, at the Summit Meeting in Shanghai, APEC leaders produced the Shanghai Accord. In addition to recognizing the need to broaden the APEC Vision, the Accord highlights two main tasks for APEC, namely to clarify the roadmap to the Bogor goals and to strengthen the implementation mechanism, in particular the IAP peer review process, as well as the ECOTECH and capacity-building efforts. No significant progress appears to have been achieved since. Should the APEC approach be re-written?

APEC is a process. The strength (or weakness) of this process currently lies in the annual cycle of its leadership. A member economy assumes the task of the APEC chair for one year, and the cycle ends with the convening of the ministerial meeting and the Summit. The APEC chair plays a critical role in influencing the direction of APEC's development, both in terms of the substance of co-operation and the nature of the process. It has a privileged position in shaping the APEC agenda. With the rotation of the chairmanship among its members, there is a built-in assurance that in broad terms the APEC agenda will reflect a balance of interest of its diverse members. The weakness of this annual cycle lies in its rather "nomadic" pattern of operation. The process is devoid

of an institutional memory.

The direct involvement of leaders in the process since 1993 has been a critical milestone for APEC. This involvement has produced leadership in the process. The leadership in APEC does not come from a particular country or from a supranational institution. Rather, it has taken the form of some kind of collective leadership. The process moves forward on the basis of voluntary commitments made by all APEC leaders. The "engine" for the movement is provided by the APEC chair that proposes a new initiative and continues to champion the implementation of that initiative in subsequent cycles. Hence, leadership in APEC is issue-specific.

APEC has adopted consensus building. This requires leadership. The process in 1994 towards the adoption and subsequent elaboration of the Bogor goals provides an interesting case study of consensus building in APEC. The Bogor Declaration towards the APEC goal of free and open trade and investment in the region did not specify the modality by which the goal will be achieved. Various options were then proposed but none was formally discussed. Obviously, serious differences exist among APEC members. The APEC EPG (Eminent Persons Group) proposed a modality that involves the creation of a free trade area. This negotiated liberalization among APEC members could be extended to non-members on a reciprocal basis. The concern that the Bogor Declaration implicitly endorsed the EPG modality prompted Malaysia to issue a six-point reservation and Thailand to issue its seven-point observation of the Bogor Declaration.

The non-binding nature of the agreement, including the 2010/2020 target dates was explicitly referred to by Prime Minister Keating of Australia and Prime Minister Goh Chok Tong of Singapore. Fred Bergsten, the chairman of the APEC EPG, thought that despite its non-binding (voluntary) nature the Bogor Declaration should be seen as a political commitment by leaders. The value of that political commitment is that it provides the momentum to trade liberalization and that once a country makes a political commitment it has to try to implement it. There was also the view that even if the agreement is non-binding, countries could be "persuaded" to honor it either during bilateral talks or discussion within the group. This is the basis for the introduction of the peer review mechanism as

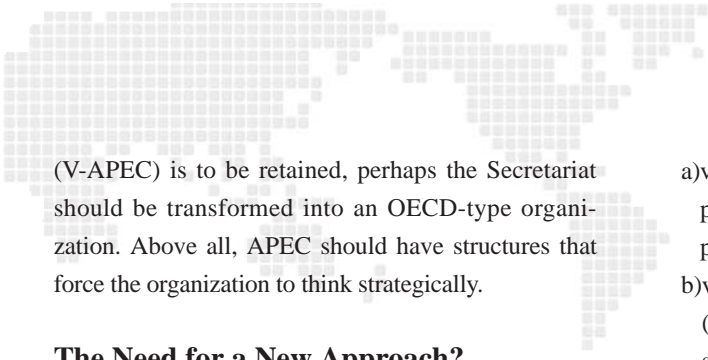
an integral part of the agreement to adopt the concerted unilateral action modality in APEC's trade liberalization agenda.

There was the view that decisions in APEC must be unanimously approved. This consensus decision-making procedure has been compromised since it has become more difficult to reach as APEC embarks on increasingly ambitious programs. The question was already raised in 1994 whether the principle of "all members minus X" or some kind of "coalition of the willing" could be introduced in APEC. President Soeharto of Indonesia, under whose leadership the Bogor Declaration was crafted, proposed that decisions be reached on the basis of a broad consensus, meaning that decisions would as much as possible become a general consent, enabling countries that are ready to implement it to do so immediately while those that are less prepared will follow later. Prime Minister Goh Chok Tong suggested that APEC should work on the basis of a flexible consensus, implying that "consensus does not necessarily mean unanimity."

The APEC process began with a meeting of ministers, aided by meetings of senior officials. Having brought the leaders into the process allows for bolder decisions to be made. However, their involvement also carries some risks. Leaders may be more concerned about deliverables or even "announceables" instead of strengthening the process of cooperation. APEC Summits provide an opportunity for bilateral summits. These bilateral summits are often of such great importance that they would help reduce the pressures on the APEC summit itself to produce spectacular deliverables. Another risk is that the process may become too much of a "top-down" process.

Finally, the APEC process relies on thin institutions. This thinness is by design. Being a voluntary and loose process, member economies are extremely cautious in establishing institutions for fear that it would result in the transfer of the locus of decision-making from individual governments to a regional institution. However, if APEC were to be created today its architects may want to devise a process that relies on stronger institutions. This will include a proper "institutional home" for ECOTECH activities and a stronger APEC Secretariat to overcome the loss of institutional memory in the process. If the overall structure of a voluntary APEC





(V-APEC) is to be retained, perhaps the Secretariat should be transformed into an OECD-type organization. Above all, APEC should have structures that force the organization to think strategically.

### The Need for a New Approach?

In view of its achievements thus far and the prospects for achieving the Bogor goals, APEC should begin to address its longer term institutional development. Should APEC move away from being a voluntary process (V-APEC) to become an organization with binding agreements (B-APEC)?

The first question to ponder is whether a V-APEC and a B-APEC are different stages in the process of confidence and community building. A further question is whether it is possible to be in an "in-between" situation in which political commitments by leaders are regarded as symbolically binding. Some "in-between" organizational principles would include "coalitions of the willing" (flexible consensus) and the conduct of "soft" negotiations.

Perhaps the fundamental question is whether a B-APEC is indeed what APEC should become, and if so, how it could get there. In the past, there was the discussion of how to transform the APEC NBIP (non-binding investment principles) into a binding one. This discussion led to a series of important questions for APEC. What is the purpose of the NBIP: Is it mainly aimed at influencing domestic policy formulation? Should it be made binding only for members that voluntarily sign it? Is an APEC code a means to consolidate the region? Or is it a first step towards developing a multilateral code that is binding at the international level?

While these issues remain to be settled, the more immediate task for APEC is to make V-APEC function more effectively. It would be useful for APEC to spell out more explicitly and perhaps codify the principles of a V-APEC and outline the architecture of V-APEC.

The principles could include the following:

1. APEC actions are actions of APEC members undertaken within a commonly agreed framework.
2. APEC cooperation is based on a modality that rests on:

a) voluntarily subjecting oneself to (APEC's) "peer pressure" so as to help reinforce one's own action plan;

b) voluntarily placing one's action plan into (APEC's) collective agenda to benefit from synergy.

3. APEC (even a V-APEC) can constrain the actions of its members (e.g. in forming FTAs) that could undermine APEC's common agenda.

4. V-APEC must permit the adoption of "flexible consensus" (currently manifested in the "pathfinder initiative").

5. V-APEC should be driven by champions/heroes.

The following points constitute the elements of a V-APEC architecture:

1. TILF and ECOTECH are ways to organize activities and are not to be seen as competing agendas. In fact, they are inseparable twins, and they reinforce each other.

2. IAPs (Individual Action Plans) are the core of APEC actions, namely actions of APEC members.

3. Peer pressure and peer review are the main mechanisms in APEC, while institutions in APEC should be developed to create synergies.

4. Cooperation with "second-track" activities helps maintain the momentum of regional community building, channel the aspirations of the people, and increase relevance of APEC.

A B-APEC is an option, perhaps only for the longer term. APEC has clearly recognized the difficulties of moving the process that involves twenty-one economies of such great diversity. It has wisely introduced a moratorium of its membership. Even the task of consolidating the process of V-APEC would be made more difficult with an expanded membership. A V-APEC must adopt the principle of flexible consensus if it is to progress. Can bilateral FTAs be justified on this ground? Or can the region come up with innovative approaches that not only help members achieve the Bogor goals but promote genuine regional community building.

## Nuclear Proliferation in North Korea: About American Diplomacy and the Problems of Power

*Thorsten Spehn*

### **Phantom Menace?**

In December 2002, North Korea decided to restart nuclear installations in Yongbyon that had been shut down under the U.S.-North Korean Agreed Framework of 1994. Relations between the United States and North Korea further deteriorated with North Korea's withdrawal from the Nuclear Non-Proliferation Treaty in January 2003. Since then, the country has made repeated statements about its possession of nuclear arms. Most notable was the statement by the Foreign Ministry in February that the country intended to add to its existing nuclear arsenal. In the latest phase of escalation, North Korea last month shut down its small reactor near Pyongyang to discharge the spent fuel and extract plutonium for bombs. It is believed that the reactor can produce enough plutonium for one bomb a year. This puts the existing stockpile at about half a dozen nuclear devices.

North Korea has also been improving its delivery capabilities through the expansion of the country's ballistic missile program. Nodong missiles with a range of 900 miles and their technology have been exported to Iran, Pakistan and Libya. This makes the threat of exporting nuclear weapons, technology and fissile material both credible and serious although this scenario is not expected in the immediate future.

The present administration has decided to respond to the growing escalation by attempting to further increase North Korea's isolation. While recent, official statements by the American government have been relatively conciliatory in nature, U.S. diplomatic efforts have not: The Agreed Framework is being pro-gressively suspended, economic sanctions and military interdictions are being threatened and Japanese support for these actions has been secured. Also, food aid to North Korea has been reduced. The Bush Administration has steadfastly refused to directly negotiate with Pyongyang. It regards the unilateral suspension of the

nuclear program a prerequisite for meaningful discussions. This tough course of action has been criticized by China, South Korea and Russia.

The deterioration of the situation has created a major challenge to regional stability in northeast Asia. In addition, it threatens the future viability of the nuclear non-proliferation regime as well as U.S. security interests; particularly in regards to the current war on terrorism which includes efforts to prevent the spread of weapons of mass destruction (WMD) to rogue regimes and terrorist groups.

### **Differentiations of Values and Interests**

It is difficult to not interpret the situation in North Korea as a major setback for American foreign policy. Massive efforts were directed at Iraq to preemptively address a WMD threat. Meanwhile, another 'Axis of Evil' member-state has expanded its nuclear capacity and is actively threatening to undermine U.S. efforts to contain the spread of WMD. Could this have been prevented? What went wrong? It could hardly have been the absence of a credible military deterrent. After all, American military power has been increasing steadily during the last four years. More likely, it was defective American diplomacy caused by a preponderance of hegemonic power.

Classic realist theory emphasizes the importance of diplomacy in a prudent pursuit of the national interest. Contrary to idealist conceptions of diplomacy, ideological differences between regimes should not play a role in defining policy objectives. The current American government, profoundly influenced by its abstract, messianic, pro-democracy world view, in which adversaries are routinely labeled as evil (i.e. members of the Axis of Evil), freedom-hating individuals (the insurgents in Iraq) against whom 'crusades' have to be waged, has engaged in a style of diplomacy that routinely leads to resentment, the increase in defensive measures in



weaker, isolated regimes and the counter-productive increase in regional tensions. The ideological emphasis in U.S. foreign policy may very well be the result of an unbalanced preponderance of power. Almost 15 years after the demise of the Soviet Union, the power of the United States remains unchecked, allowing the sole superpower to engage in excessive foreign policy behavior in which imprudent, moral righteousness is a strong element.

As realists would predict, the ideological aloofness of American foreign policy vis-a-vis North Korea represents a luxury that comes at a high price to the people of the United States and northeast Asia. National interests as dictated by national security objectives are not being met. If they were, non-proliferation to prevent terrorists from acquiring nuclear capabilities should have been pursued more vigorously in a diplomatic process that considers North Korea a rational and equal negotiating partner and which would have included the use of non-coercive means as well as incentives. The punitive stance of the United States only hurts, as did sanctions in Iraq, the people of North Korea who remain the victims of an outrageously oppressive regime.

### **Justice vs. Order**

The current increase in tensions also runs counter to the ongoing process of the improvement in relations between Seoul and Pyongyang. Tensions threaten the type of effects that constructive engagement is believed to have on political democratization in North Korea and which is currently being relied upon as part of American policy towards China. But where do we go from here?

Clearly, the North Korean government wants recognition of its sovereign status and security needs by the United States, in addition to the economic benefits that it has negotiated as part of previous episodes of saber-rattling. The first demand is not unreasonable given the aggressive nature of current U.S. foreign policy. Addressing the second demand may be a small price to pay given the positive effects on regional stability and is in complete agreement

with longstanding U.S. practice to economically and diplomatically support undemocratic regimes if that serves American interests in the fight against international terrorism.

While U.S. policy should not go out of its way to support a repressive regime, such policy should recognize the limits of American power and the corresponding costs of an uncompromising, moral position: The loss of control over proliferation through the eventual export of nuclear materials and the formation of a formidable security threat through the conjunction of terrorism and WMD, the continued intransigence of a defensive North Korean regime coupled with indefinite suffering of the North Korean population and, finally, the heightened level of tensions that prevent further rapprochement on the Korean peninsula.

## Corporate Governance for Financial Institutions

Lawrence L. C. Lee

Taiwan is facing financial scandals in state-owned financial institutions that could threaten Taiwan's economic development. A series of recent financial scandals have encouraged Taiwan to consider further reforms in financial sector. Examples are the First Financial Holding company (insider trading), the Chuna Shin Commercial Bank (Chairman's taking banking assets), the Bank of Overseas Chinese (high ratio of non-performing loans), and Kuo Hwa Life Insurance (President Da-Min Won's asset stripping). These financial scandals have caused considerable loss of the public's confidence in Taiwan's financial system.

### Comprehensive Financial Supervision Framework

In addition, the inefficiency in state-owned banks for not generating annual income has been a problem in addition to the high rate of non-performing loans (NPL). As a result, state-owned banks and private banking institutions totally produced between 5.94 and 6.39% of the entire non-performing loans in June 2003. Moreover, the high ratio of the NPL indicates the weakness in governance of banking institutions.

These financial scandals have led to the call to strengthen Taiwan's financial supervisory framework. In theory, a comprehensive financial sector requires a good legal structure, a less restrictive financial regulatory regime, an efficient financial institution, a capital market, and a low degree of government ownership in financial sector. The purpose of creating a comprehensive financial supervisory framework is part of a drive to mitigate the financial crisis, which affects international financial markets and economic development.

### Soundness of Financial System vs. Economic Development

A well-developed financial sector could play a major role in promoting economic development

characterized by sustainable, long run economic growth. A financial institution is not only an intermediate but also a credit allocation to the public, which needs capital for private needs or corporate transactions. In addition, the relationship between economic development and financial institutions is interdependence.

In order to maintain a stable financial system, financial institutions are therefore among the most closely scrutinized businesses in the world. U.S. Sarbanes-Oxley Law passed in July 2002, for the most part was based on existing financial supervision regulation. However, the transformation of financial services has increased financial instability and presented challenges to financial authorities to maintain financial stability.


### The Goal of Financial Supervision

Structures for financial regulation and supervision differ considerably from country to country. Nevertheless, the goal of financial supervision is to enhance the stability, reliability, transparency and efficiency of the financial sector, to reduce systemic risks. In addition, financial supervision is able to prevent the abuse of the financial sector for criminal purposes, with a view toward protecting the interests of clients and investors by safeguarding their financial resources and supporting the stability of a national monetary system.

In order to reach the goal of financial supervision, a supervisory system should carry out two functions: first, the supervision system should detect illegality and unsound practices and provide early warning of potential failure. Second, there is the need for the existence of an array of enforcement techniques available to enable financial regulators to rectify problems that have been identified.

Financial stability requires vigilance in a number of dimensions. Individual financial institutions have





to be managed on prudent lines, markets have to be open and transparent, and the financial supervision framework has to be robust. Specifically, the financial regulations are responsible for amending prudential financial supervisory regulations to promote a safe and sound financial market.

The role of the regulatory environment in which financial institutions and capital markets operate should be viewed as regulators rather than participants. Most Asian countries have common problems in which private firms and financial institutions have a good relationship. The close relationship was one of the factors, which contributed to the Asian financial crises in 1997.

### **The Role of Financial Regulators**

The role of the regulator should not focus on control and regulation, but mainly on encouraging and promoting self-regulation of the financial industry and on enabling the high standard of corporate governance. The supervision should also be subjected to the principle of differentiated regulation so that financial institutions with sound financial and operational status and good legal compliance will be able to carry out their business in a more liberalized environment. By doing so, we are marching toward a more market-oriented and risk-based supervisory system.

Therefore, in order to create a safe and sound financial system, financial regulators should keep away from being a participant in financial markets. The financial regulators should not become involved in financial markets and avoid conflict of interest. Taiwan has created an all-in-one financial services supervisor, Financial Supervision Commission under the support of the Executive Yuan, in July 2004.

Taiwan's financial regulators should supervise financial market rather than participate in the financial market. As a result, Taiwan's government should promptly privatize state-owned financial institutions, which causes Taiwan's authority to become a marketing participant and supervisor.

### **Financial Supervision and Corporate Governance**

In terms of fiduciary duties emphasized by the OECD's principle of corporate governance, the duty of care imposed an ongoing responsibility on directors to monitor a financial institution's compliance with the law as well as its business performance. Specifically, a corporate board of directors must implement and maintain information and reporting systems reasonably designed to provide timely and accurate information to allow the directors to reach informed decisions.

With this in mind, the managing level in a financial institution should follow the business judgments of a majority of the directors. Accordingly, the business judgments rule substantially reduces the risk that directors will be held liable for simple mistakes of judgment. The essence of effective risk management in the financial institution is identifying risks and then taking affirmative action to keep those risks within manageable limits.

Countries reaping the full benefits of global capital markets and attracting long-term "patient" capital must have corporate governance arrangement that is credible and well understood across borders. For countries that do not rely primarily on foreign sources of capital, adherence to corporate governance will improve the confidence of domestic investors and reduce the cost of capital and ultimately induce a more stable source of financing economic development.

Innovation, liberalization (deregulation), and globalization in the financial service industry have contributed to making the financial business more complex and potentially riskier. The derivatives of financial services have presented new challenges to financial supervisors with respect to the structuring of their ongoing supervision. In response, financial supervisors have developed new methods and processes for monitoring and assessing financial institutions on an ongoing basis.

Particular attention is being paid in this regard to improving the quality of internal financial examinations and the development of systems that can assist supervisors and examiners in identifying changes, particularly deterioration, in a financial

institution's financial condition as early as possible.

In the future, formal risk assessment and early warning systems will continue to be developed and adopted by bank supervisors in developed and emerging market economies for risk-based supervision and will contribute significantly to strengthening the process of ongoing financial supervision. Taiwan has ignored the importance of risk assessment and early warning system's to financial supervision, which may cause expensive financial scandals.

## **Future Directions**

In closing, in order to link Taiwan and global financial markets, Taiwan should enact financial supervision regulations based on the concept of corporate governance and request financial institutions to strictly implement corporate governance provided by the OECD. Financial supervision through the implementation of corporate governance for financial services will enhance the legal framework to stabilize the financial system. Whatever may have caused financial instability; it is clear that enforcement for the foreseeable future will be stricter than it has been before.

In order to advance the lines of defense against financial instability, Taiwan's regulators should strengthen the prudential orientation of the financial regulatory and supervisory framework. Implementing corporate governance in the financial sector will be one of the mechanisms that will help management strengthen safety and soundness of the financial system and protect public interest.

In addition, the adoption of earlier risk assessment and an early warning system will allow Taiwan's financial authorities to have more time to deal with a financial failure at an earlier stage. A prudent financial supervision regulatory framework will give Taiwan a safe and sound financial market.

By doing so, Taiwan's economy will receive certain capital support and continual growth. However, when the entire legal infrastructure is already in place, all that is needed for financial supervision is to make financial supervision work. Without legal enforcement, the financial supervisory authority is a toothless tiger.



# APEC Means Community

## — Deepening the Bogor Goals and Strengthening the Mid-term stocktake —

*Johnny C. Chiang*

### **Context of Bogor Goal**

In 1989, APEC was established as a regional intergovernmental forum so as to enhance economic growth and prosperity for the region and to strengthen the Asia-Pacific community through bilateral and multilateral meeting of ministers. In the first APEC Economic Leader's Meeting in 1993, APEC had a greater vision to strengthen the cooperation in liberalizing trade and investment, facilitating economic growth, and improving economic cooperation to realize the vision of APEC community as well as enhance the stability, security and prosperity of the people.

In order to realize this vision, the Bogor Goals were adopted by Leaders at their 1994 meeting in Bogor, Indonesia and they agreed on free and open trade and investment in the Asia-Pacific by 2010 for industrialized economies and 2020 for developing economies. APEC leaders had also agreed that economies that are ready can begin to undertake Initiatives and implement related cooperation arrangements, those that are not yet prepared can participate in it later on so that the progress to meet Bogor Goals can be facilitated. That is to say, the Bogor Goals were set as the road to the community of Asia-Pacific economies. The Osaka Action Agenda (OAA) in 1995 and Manila Action Plan (MAP) in 1996 further indicated APEC's way towards the Bogor Goals.

### **Obstacles for Bogor Goal**

However, with the 1997 Asian financial crisis and with the Early Voluntary Sectoral Liberalization (EVSL) and Advanced Tariff Initiative (ATI) failing to reach a consensus, APEC seems to have no major breakthrough in the field of free and open trade. Instead, it relied more on the development of WTO multilateral trading system. Whether or not the

Bogor Goals can be achieved on time are therefore of a concern.

Although the WTO Doha Round negotiation was launched in November, 2001, the progress has been very slow thus far. Some economies therefore seek trade liberalization through means of free trade agreements (FTAs) and regional trade arrangements (RTAs). The setback of the 5th WTO Ministerial Meeting in Cancun, Mexico in 2003 had not only dropped new variables into the development of world trade system, but also facilitate the spread of FTAs/RTAs in the APEC region. Many APEC member economies have since then involved in the endorsement of FTAs/RTA, and these developments have more or less generated some impacts on the progress of the Bogor Goals and diverted the attention of member economies from it.

Moreover, the definition of the Bogor Goals itself and the long existing principle and structure of APEC are also keys to the realization of Bogor Goals. The problems include the need for the definition of the so called "free and open trade" and what should be the criteria and what is the difference between developed economies and developing economies. In addition to these, APEC still face the difficulties and challenges of improving the efficiency and increasing the benefit of mutual cooperation under the current voluntarism, non-binding principle, peer review mechanism and the approach of pathfinder initiatives.

In the face of these challenges, APEC has to strengthen its efficiency and responding capacity, and needs to streamline its process. APEC reform initiative thus started to be an important issue from 2003 with the hope of improving the efficiency and increasing benefit of APEC. In order to realize the Bogor Goals, APEC is also currently very active in conducting a mid-term stocktake to highlight what

APEC has achieved so far and show APEC's way forward. In other words, one way or another APEC should face these difficulties and challenges. More importantly, APEC should not give up the Bogor Goals for it is the soul of APEC and the vision of APEC community. On the contrary, APEC should further deepen the Bogor Goals by reviewing the content and roadmap of the Bogor Goals and clarifying related definition via the mid-term stocktake exercise. More specifically, APEC should also strengthen the implementation of IAPs, CAPs and pathfinder initiatives and even consider relating it with APEC reform issues to enhance the mid-term stocktake, to stimulate the progress of the Doha Round negotiation, and to contain the spread of FTAs/RTAs.

### **Approaches to Achieving Bogor Goal**

Last but not least, besides liberalization, facilitation and capacity building, APEC should also in spirit, value and concept, reiterate the pursuing of the future vision of an APEC community. That is to say, APEC should mentally support technical learning and cooperation, because those that lack value sharing cannot last long. The concept of "APEC Means Community" should go beyond empty talk and be carried out by the whole society. This means that not only governments but also the voice of business and civil society should be considered, APEC should even increase NGOs and civil society's participation in it, diminish the possible conflict brought by the difference of culture and society. And that everyone in APEC should participate in the building of APEC community, letting this community truly be the common community of the Asia-Pacific region.

The Bogor Goals have been there for more than 10 years, under the current difficulties and challenges APEC is facing, we do have the need to thoroughly review the process and mechanism of APEC and undertake necessary reform process. However, on the path of pursuing the vision of APEC community, we should not give up the Bogor Goals but should deepen it and build up the concept of "APEC Means Community."





# The Challenges of "ASEAN Plus Three"

*Mignonne Man-Jung Chan*

## **The ASEAN Plus Three (APT) Is Taking Shape**

The APT is essentially a reincarnation of the East Asian Economic Caucus (EAEC), proposed by Malaysia's then Prime Minister Mahathir in 1990. The APT is meant to forge economic integration among the ASEAN ten members with Japan, Korea, and China. APT will include harmonization of at least six FTAs, namely ASEAN Plus China, ASEAN Plus Japan, ASEAN Plus Korea, Japan and Korea, Japan and China, as well as China and Korea. The "ASEAN Plus China" Agreement was completed in 2002, aiming at establishing an FTA between China and the ASEAN Six by 2010, and with the ASEAN Ten by 2015.

At the 6<sup>th</sup> APT Summit in 2002, an "Asian Economic Community," proposed by Japan, was meant to be gradually formalized with the existing APT dialogue, with concrete measures the scope of which went beyond economic and financial cooperation and covered politics, security, environment, energy, culture, education, and social cohesion.

Furthermore, in lieu of the progress on the front of "ASEAN Plus China," Japan and ASEAN signed the "Tokyo Declaration" in December 2003, aiming at establishing "ASEAN Plus Japan" FTA by 2012. From Japan's 2003 Whitepaper on Trade, the sequence of Japan's strategy for regional cooperation was to sign FTAs with ASEAN and Korea first, then APT, and then linking it with Taiwan.

As to "ASEAN Plus Korea", it is expected that a "Framework Agreement on Comprehensive Economic Partnership between ASEAN and Korea" be signed in October 2005, which would include zero-tariff scheme for 80% of the bilateral trade in goods, and negotiations on services trade and investment to be discussed in 2006.

Furthermore, with the steady progress made in APT, there have been external interests and internal discussions, which entertained various possibilities of an expanded membership, including "ASEAN Plus Five" (with Australia and New Zealand; or rather Hong Kong and Taiwan perhaps), or "ASEAN Plus Three Plus Three" or namely 'ASEAN Plus Six'--fancying the inclusion of Australia, New Zealand, and India, or what have you.

Given the occurrence of the Asian financial crisis, the rise of Asian conscience, China's accession to the WTO and growing confidence in taking up active regional role, Japan's keeping abreast with the regional engagement, Korea's growing sense of catching up, and ASEAN's continuous interest in serving as "hub" rather than "spokes" in the process of regional economic cooperation, it seems that the APT is marching towards institutionalization. In addition to the Summit initiated in 1997, the APT today boasts annual meetings of Economic, Foreign, Labor and Agricultural Ministers, as well as the senior officials' level meetings--by the name of East Asia Study Group—to coordinate the APT cooperation agenda. Future development of APT, at its current agreed pace, would form the biggest FTA in the world by 2015, with a total population of 1.98 billion. This will certainly provide a new global economic landscape of tri-polar balance of power.

## **Challenges Ahead for APT**

Despite the positive aspects described above, some potential constraints and future challenges merit our attention.

### *U.S. Concerns Remain with Strategic Positioning in Sight*

U.S. strong opposition to the EAEC in early 1990s was effective in that Japan and Korea

expressed lukewarm attitude then and thereby the fate of the EAEC was ill aborted. However, the Asian conscience, stirred up by the Asian financial crisis, outweighed the earlier concern, and in effect witnessed the reincarnation of the EAEC in the name of APT. Nevertheless, the U.S. reserved concern and her invisible hand remained evident not only in the passive objection to the envisaged Asian Monetary Fund but also in the active pursuits of the Enterprise for ASEAN Initiative (EAI). The EAI aims to encompass bilateral dialogues with ASEAN members so as to sustain American commercial interests on the one hand and assist ASEAN in upgrading production, distribution and coordination. The US-Singapore FTA symbolized U.S. continuous strategic interests in the region. Furthermore, U.S. maintained its bilateral military engagements of various sorts, with Japan, South Korea, Taiwan, the Philippines, Australia, Singapore and Thailand in the region.

Recently, the China-pressuring is somewhat reminiscent of the Japan-bashing in the 1980s. There have been strong calls for China's currency valuation and policy reform in exchange rate policy. After the lifting of the textile quota mandated under the WTO Uruguay agreement in January this year, China's surging export to the U.S. has generated threats of retaliation unless China either imposes voluntary restraints or levies export tax on their textile products. The U.S. also pressured the EU to follow suit. It seems that the trade war will not go away any time soon, even though WTO Director General candidate Pascal Lamy called the call for China's export restraint either ignorant or hypocritical.

### *China's "Peaceful Rise" Remains Uncertain*


With the accession to the WTO in 2001, China has further turned into the locomotive of regional economic growth. With the nominal GDP ranked the 5th in the world, China's stake in the world economy is paramount. China's aspiration to peaceful development, articulated times and again in the policy statements, will be showcased in the run-up of the 2008 Olympic Game in China. Therefore, China takes a special stance on favoring multilateral cooperation manifested in the "New Security." The concept of "New Security" was frequently articulated in China's policy statements which perceives the new

mandates in the areas of anti-terrorism, anti-narcotics, securing energy resources, stabilizing currency and finance, etc. The new perception has transcended beyond the traditional military concern. China continues to play active roles in the North Korea issue, the Shanghai Cooperation, and mustering confidence-building campaigns with neighbors surrounding its vast territories. China also raised eyebrow over the recent US-Japan pronouncement of Taiwan as their "common security concern."

The recent issuing of the "Anti-Secession Law," which was meant to crystallize China's stance against Taiwan's separatist movement, also aroused indignant sentiments across the Strait, unfavorable pronouncement from the U.S. and postponement of lifting arms embargo by the EU. However, the endorsement of the "One China" principle by the leading "Green Camp businessman," Mr. Hsu Wen-Lung, who is both a investor in China and supporter of the separatist movement, and the current and upcoming "peaceful visits" by the opposition parties' leaders have certainly tipped off the negative impacts of the Law. China has dangled the carrot of much-wanted bilateral economic cooperation to Taiwan during KMT Party Chief Lien Zhang, and will continue to whet enormous Taiwan's appetites for more. Nevertheless, the roads onto coming negotiations on "One China" and ensuring China's peaceful development would be a bumpy one, to say the least.

### *Leadership Competition between China and Japan in the Region*

The rise of China has created some tension between the two regional powers. China opposed to Japan's proposition for an Asian currency immediately after the Asian Financial Crisis, and insisted that keeping the Reminbi intact would be the best for China to do for the region at the time. The competition between China and Japan in vying for regional leadership seems only obvious, and sooner or later China and Japan will face the challenge of competitive balance of regional influence and cooperative goodwill for the regional leadership. Japan has been a loyal U.S. ally since post-Second-World-War. Japan has lately been inspired to become a "normal nation" by amending the post-War



Constitution, especially Article 9 that prohibits Japan's remilitarization of non-defense nature.

U.S. has recently backed up Japan's wish to become a permanent member of the U.N. Security Council, but China has not been ready to agree to an expanded membership of the Council. The anti-Japanese protests against Japan's inspiration. Despite her expression of "deep remorse" recently expressed by Prime Minister Koizumi on the wartime atrocity created during the World War, the actions of textbook treatment on the war time history and the continuous visits paid to the war dead at the Yasukuni shrine have not matched up the words so expressed, according to Asian nations, China in particular.

However, given the fact that China has replaced the U.S. as Japan's largest trade partner with the bilateral trade reaching 22 trillion Yuan, and that Japan's UN Security Council dream remained unfulfilled, it is not likely that the worsening relationship would be forthcoming. Furthermore, the ASEAN members do not take the Sino-Japan mild tension seriously, as it serves the purpose of keeping Japan on its toes and thereby stay engaged in the region.

#### *The Intra-ASEAN Trade Remains Stagnant, and the Competition with China in Trade and Investment Remains Real*

The ASEAN Free Trade Area (AFTA) was established in 1992, but the intra-trade dependence among the ASEAN members registered a 18% in 1992 to 23% in 2002, not highlighting the expanded membership in the span of 10 years. ASEAN's attempt to accelerate its pace of liberalization by 3 years in advance of its original schedules, and to achieve zero tariff by 2007 for the ASEAN 6 and by 2013 for the remaining 4. ASEAN further selected seven industries as priority industries for earlier development, namely automobile, textile, electronics, IT, medical equipments, plastic and tourism. However, the "Plus three" countries have indispensable roles in most of these industries. In addition, ASEAN's shares of export markets to China, U.S. and Japan constitute 7.27%, 17.8% and

15.3% of its total export; whereas China's shares of export markets to ASEAN, U.S. and Japan constitute 6.78%, 22.7% and 16.6%. Therefore, there is overlapping in export products as well as competition in export markets between ASEAN and China. Furthermore, the parallel phenomenon could be found in the area of FDI as well. Since 2000, the annual inbound FDI flow to China totaled 40 billion, where as to ASEAN only 8 billion. China as a threat remains as vivid to ASEAN as an opportunity.

#### *The Development Levels among APT Remain Diverse*

Take the GDP of 2004 as an indicator, there was a 17-time disparity between the well-to-do Japan (with US\$29,400) and Myanmar (with US\$1,700). Although under the assumption of high trade dependency and high degree of complementarity, there could be expanded trade among APT, but the needs for structural reform and sequencing of reform could be an unstable and taxing one. The challenges ahead for economic integration under the circumstance of cultural and linguistic diversity could be tantamount as well. From hindsight, ASEAN's earlier insistence has its merit in that ASEAN should be the hub, whereas the "Plus Three" the spokes in the drive of the hub-and-spokes theory toward integration. This is to ensure that there will be more beneficial arrangements for the "ASEAN Plus Three" rather for the "Three Plus ASEAN", so to speak.

#### *The "Plus Three" Integration will Come in Due Course, but not to be Expected too Early*

There is some similarity in the economic conditions of China, Japan and Korea, such as big-scale enterprises, strong steel industry, and substantial mineral importer, etc. They could easily become natural allies in certain negotiations. Currently, the three have achieved preliminary consensus on the negotiation items, which will include only public finance, macroeconomics, and quarantines, etc. Japan, compared with the other two, is less forthcoming regarding negotiations among the three, particularly dreading the detrimental

# Asia-Pacific 100day

consequence in negotiating the agriculture issue. Although Japan and Korea are undertaking bilateral negotiation, the progress is somewhat stalled. As to China, Japan has insisted that the time is not ripe, and that China first needs to implement her WTO commitments.

## *The Proliferation of FTAs/RTAs May well Mitigate the Impacts of APT*

Under Article XXIV of the WTO, there is a 10-year allowance for favorite treatments under FTAs. Unless favorable conditions are well negotiated, operationalized and implemented, the expected benefits may not be accrued. There are currently 40 plus bilateral and plural FTAs, and 30 plus under negotiation within the Asia-Pacific region. Furthermore, there are cross-continent FTAs, such as US-Singapore, US-Australia, and Korea-Chile, etc. with complicated and diverse favorite treatments, such as Rules of Origin with a "spaghetti-bowl" effect. The proposition of an FTAAP (Free Trade Area of Asia Pacific), which would cover the 21 members of APEC, was aborted last year, and may well resurface this year with some die-heart determination. All these may well cancel the originally intended outcome of the APT. However, we should note that many of the proliferated FTAs are more strategic in outlook than solid in substance. Some are meant to function as a counter-force, still others as bargaining chip against the desirable others.

The potential constraints listed above are not to be perceived as pouring cold water over the sizzling PTA, but rather could be seen as a check-list alert for making further efforts in achieving meaningful outcome.





# Major Things to Know about APEC's ECOTECH Work

*Chen Sheng Ho*

## **ECOTECH the Elder**

Since the creation of APEC in 1989, the promotion of economic and technical cooperation (ECOTECH) among APEC members has been the norm. This is the reason why APEC has established working groups to advance ECOTECH in diverse areas, such as agriculture, energy, fisheries, telecommunications and etc. APEC's work to enhance ECOTECH has a long history and that it will continue to remain significant for APEC. However, with the existence of the Bogor Goals in 1994, APEC has emphasized trade and investment liberalization and facilitation (TILF) over ECOTECH. Essentially, the Bogor Goals call on APEC developed members to achieve free and open trade and investment by 2010 and developing members to do so by 2020.

We can see from the above paragraph that APEC's work in ECOTECH has been quite established but has not been in the limelight in comparison to TILF. Thus the purpose of this paper is to provide interesting and succinct information about ECOTECH, so as to increase our understanding of ECOTECH. Once this is accomplished, it raises the possibility that we would be able to provide effective suggestions for advancing ECOTECH in APEC.

## **Major Information on ECOTECH**

First, we are all aware that the three pillars of APEC's work consist of TILF and ECOTECH. However, it is seldom mentioned that ECOTECH is the oldest of the three pillars. This is to say that ECOTECH has been part of APEC's work since the beginning of APEC in 1989. However, it must be noted here that the acronym, ECOTECH, comes into common usage later, although the work has remained the same. APEC has always been promoting

economic and technical cooperation. This is not the case with TILF, since TILF comes into being only after the creation of Bogor Goals in 1994. Thus in terms of seniority, ECOTECH is older than TILF. On the other hand, in terms of popularity, TILF have taken the center stage in APEC.

Second, the reason why APEC has emphasized TILF over ECOTECH is that developed economies of APEC prefer to advance TILF rather than ECOTECH. This is not surprising since trade liberalization, a part of TILF, has been an important agenda for developed economies to pursue. Developed economies are less interested in ECOTECH because it means that developed economies would have to assist developing economies in various ECOTECH projects. Certainly, from the standpoint of developing economies, ECOTECH is much more significant than TILF because they could receive technical knowledge and valuable information from the ECOTECH projects.

Third, in order to know APEC's guidelines for work in ECOTECH, it is necessary to examine Part II of the Osaka Action Agenda (OAA) which deals with ECOTECH (APEC 2005a). The fact that ECOTECH is placed in Part II while Part I is about liberalization and facilitation just shows that APEC places greater emphasis on trade liberalization.

In Part II of the OAA on ECOTECH, APEC principally provides guidelines for work in the following areas: 1) agricultural technical cooperation; 2) energy; 3) fisheries; 4) human resources development; 5) industrial science and technology; 6) marine resource conservation; 7) small and medium enterprises; 8) telecommunications and information; 9) tourism; 10) trade promotion; and 11) transportation. Most of us are not aware that Part II of OAA is about ECOTECH, since OAA is commonly known to be about guidelines for TILF. It

is hope that this problem is now rectified after reading this paper.

Fourth, with the focus on achieving the Bogor Goals and the existence of TILF, APEC's work in ECOTECH has included the provision of support for TILF. A good analogy would be asking the elder brother to assist the younger brother. As aforementioned, ECOTECH is older than TILF. Part II of the OAA states that "APEC economies will pursue economic and technical cooperation in order to attain sustainable growth and equitable development in the Asia-Pacific region, while reducing economic disparities among APEC economies and improving economic and social well being. Such efforts will also facilitate the growth of trade and investment in the region."

From this quotation, we can see that APEC's tasks in ECOTECH cover a wide area. Work in ECOTECH is not only about enhancing economic development, strengthening capacity building and sharing technical knowledge, but also specifically has to support trade and investment. It is possible that because APEC's efforts in ECOTECH consist of a large area, it is harder to grasp the true nature of ECOTECH. The result is that it has been harder for APEC to relate what ECOTECH is all about. In APEC's website regarding SOM Committee on Economic and Technical Cooperation (ESC), it is stated that 121 ECOTECH projects were implemented in 2004 (APEC 2005b). It is often said that there are too many ECOTECH projects, so that there is a need to streamline them. In addition, there has been the call for fewer but larger ECOTECH projects, so as to make them easier to manage and to publicize their impact.

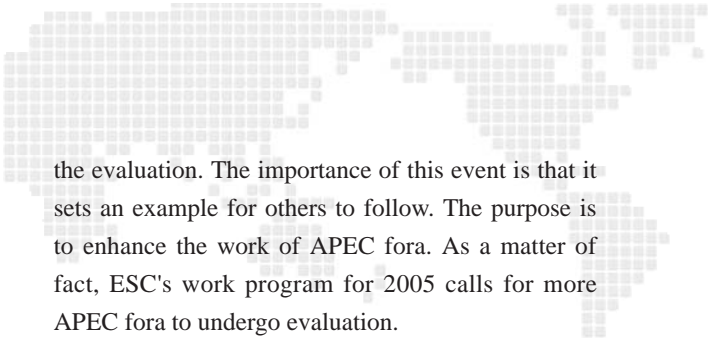
Fifth, for the purpose of coordinating ECOTECH programs, ESC was created in 1998, but the degree of coordination has not been as high as it has hoped. A possible reason is that these working groups have been established before ESC. The result is that these working groups seem to feel that they are higher in seniority than ESC. Thus they are less incline to follow the ESC. In addition, these working groups would like to maintain their independence. It is also likely that ESC has not been able to fully understand the work of the working groups, since they are sometimes technical in nature. The effect is that the

ESC would have a harder time coordinating the working groups. Finally, as aforementioned, there are many ECOTECH projects, so that ESC might not have the time to comprehend what these projects are all about. On the other hand, the working groups know these projects well, so that they can manage them. The bottom line is that the working groups enjoy a great degree of autonomy.

The working groups we are referring to in the above paragraph are those working groups that have specific areas to promote as stated in Part II of the OAA and these areas have been mentioned earlier. These working groups principally implement ECOTECH projects and have been doing so before the creation of ESC. In contrast, the Committee on Trade and Investment (CTI) has greater success in coordinating APEC's work in TILF. The most important reason is organizational in nature. It is the CTI that has established the various groups to work TILF issues. These groups are collectively called CTI Sub-fora. From the name itself, we can see the importance of CTI.

Sixth, another important formation is that the ESC has changed name once, in order to enhance its stature. Originally, ESC was called the Sub-Committee on ECOTECH. However, in 2002, ESC was renamed as SOM Committee on ECOTECH. The most significant reason for the change is that ESC feels that being call a sub-committee rather than a committee is not appropriate because it implies less power to coordinate APEC's ECOTECH work. Finally, Senior Officials agreed to the change in name. The acronym remains ESC, in order to minimize paperwork. Certainly, the name change is wonderful for ESC because its stature has increased and is in the same level as the other APEC committees. However, it seems that ESC's ability to coordinate APEC's ECOTECH work has not increased as a result of the name change.

Seventh, ESC has done a great service for APEC through calling for the evaluation of APEC fora by an independent body. The result is that the Fisheries Working Group has accepted the call from the ESC. The APEC International Assessment Network (APIAN), part of the APEC Study Centers Consortium, has created a group to assess the Fisheries Working Group and has already completed



the evaluation. The importance of this event is that it sets an example for others to follow. The purpose is to enhance the work of APEC fora. As a matter of fact, ESC's work program for 2005 calls for more APEC fora to undergo evaluation.

Finally, it is essential to know what ESC plans to focus on this year. First, it seeks to evaluate to what extent ECOTECH has contributed to the achievement of the Bogor Goals. This task is ESC's contribution to APEC's mid-term stocktake. Second, ESC will work on encouraging APEC fora to be evaluated by independent bodies, so as to enhance their ECOTECH work. Third, ESC will enhance its cooperation with international financial institutions (IFIs). ESC has collaborated with World Bank's Global Learning Development Network (GDLN) and has worked on the Second APEC/IFIs Roundtable Dialogue on ECOTECH. Fourth, ESC is going to assist Budget and Management Committee (BMC) to create a proposal for utilizing APEC Support Fund for capacity building activities. Fifth, ESC will strengthen its outreach efforts and also work closely with ABAC and relevant fora. Finally, ESC will try to coordinate cross-cutting issues, such as sustainable development and invasive alien species (APEC 2005c).

#### References

- APEC. 2005a. *The Osaka Action Agenda*. Singapore: APEC Secretariat. Available at <[www.apecsec.org.sg](http://www.apecsec.org.sg)>
- APEC. 2005b. *SOM Committee on Economic and Technical Cooperation*. Available at <[www.apecsec.org.sg](http://www.apecsec.org.sg)>
- APEC. 2005c. *SOM Committee on Economic and Technical Cooperation*. Available at <[www.apecsec.org.sg](http://www.apecsec.org.sg)>

## The Advent of Globalization and its Impacts on Sovereignty

Shunyo Liao

### Genealogy of Globalization

Globalization is a dramatic qualitative and quantitative change that has emerged in the last decade because of the political, economic, and social integrations and interdependences caused by technological progress. Globalization has actually limited and damaged the sovereignty, authority, and autonomy of states to the extent which has never seen before. Although states are still major actors in international politics, the fundamental status of states is declining severely after the advent of globalization.

Paul Friedman defined globalization as the integration of markets, finance, and technologies in a way that is shrinking the world from a size medium to a size small and enabling each of us to reach around the world farther, faster, and cheaper than ever before. It is directly and indirectly shaping the domestic politics, economic policies, and foreign relations of virtually every state. Kenneth Waltz argued that globalization means homogenization; price, wealth, rates of interest and profit tend to become the same all over the world. John Rosenau denoted it to something that is changing humankind's preoccupation with territoriality and the traditional arrangements of state system. Comparing and combining their definitions, I would argue that globalization is a situation in which the political, economic, and social integration caused by technological innovations are altering the life of mankind as a whole.

The main reason of why and how the globalization is happening is the progress of technologies: computerization, miniaturization, digitization, satellite communications, fiber optics, mass transportation, and internet. Not only do these innovations bring the quantitative change to human life, but also cause the qualitative change to the world. In terms of international politics, whether globalization alters the nation system is one of the most important debates that should be addressed

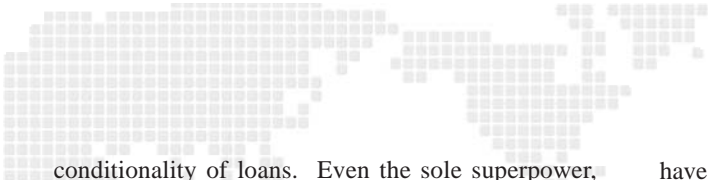
more seriously because the notion of state is almost the most important theme in international relations.

### The House of Sovereignty is on Fire

After analyzing "The Lexus and the Olive Tree" by Paul Friedman, "The Erosion of the State" by Susan Strange, "The Complexities and Contradictions of Globalization" by John Rosenau, and "World Politics" by Rourke and Boyer, I found that their arguments do prove the autonomy, authority, and sovereignty of state are declining. Their arguments are organized by the following elements.

Globalization is caused by economic integration. Even Kenneth Waltz admitted the globalization of money market. And it is financial integration that influences globalization the most. Although the ratio between trade and GDP of OECD today is still as same as in 1910s; 20.5%, the financial market has achieved to a greater extent than before. Comparing the following numbers, it would be easy to realize the influence of the financial market; the annual value of world trade was \$6.4 trillion in 1997, the total foreign reserve of all nations is around \$1 trillion, however, the daily value in financial market is \$1.5 trillion! Only in the 1990s, there were three financial crises happening, European Monetary System in 1992, Mexican Peso crisis in 1994, and Asian financial crisis in 1997. Every financial crisis is more influential and powerful than its predecessors. In the extreme case, who ousted President Suharto? It was not another great power, but the global financial market. The influence of global financial market has exceeded almost every state financial capability and policy. On the other hand, not only is the influence of economic globalization far beyond state control and capability, but also increases the influence and power of economic IGOs. For instance, the rescue packages of IMF and World Bank have intervened what has been thought to be pure internal affairs through





conditionality of loans. Even the sole superpower, the US, has to negotiate with its trade partners under the WTO settings. The capability to implement policies of trade, exchange rate, interest rate, investment and governmental expenditure are no longer monopolized by states, the economic globalization erodes the autonomy of states, and the loss of economic controls diminishes the general authority of a state.

Globalization is caused by social integration. The world is being integrated by the habits of cooperation and cross-cultural understanding that results from rapid travel and communication and from economic interchange of goods and services. Liberal ideas, like democratization and human rights, spread around the world in unprecedented speed. Those spreading ideas influence the norms of behaviors that help regulate and characterize any political system. For instance, the values about the conduct of war are changing and attacks on civilians are losing whatever legitimacy they may once have had. The international tribunal trying war crimes in Bosnia exemplifies this. Unpunished mistreatment of some or all of one's citizens under guise of sovereignty has also lost considerable legitimacy. Although Fukuyama may have exaggerated the influence of liberal ideas in his "The End of History," indeed the liberal ideas are becoming more universal around the world. More and more states accept democracy and notions of human rights as norms for internal political system. The traditional line between concept of internal affairs and external affairs is blurring in the process of social globalization.

Globalization is caused by political integration. It is evident in the increasing number and importance of other international actors; IGOs, NGOs, and even specific individuals. The argument regarding the importance of IGOs is that leaders of states try to follow their conceptions of the national interest by using the IGOs to shield leaders from domestic political pressures and legal restrictions. One good example is that the US presidents now contend that if the UN, NATO, or other IGO has authorized action in Iraq, Haiti, and the Kosovo, the president does not

have to seek authorization from Congress to send the US forces into action. As President Bush said "I have the inherent power to commit our forces to battle after the UN resolution." In cases above, IGOs have helped the US to enjoy widespread legitimacy. On the other hand, the case of importance of specific individual is Jody Williams; she has managed to build an international coalition in favor of a landmine ban with the help of 1,000 different NGOs around the world and in the face of opposition from major powers. The unilateral action of sovereign state is declining in its effectiveness and sufficiency in many issues. Multilateral cooperation through IGOs and NGOs has proved more useful for dealing with global problems, like pollution, population and poverty.

### **Business as Usual**

Kenneth Waltz, in his article "Realism and Globalization," proposed two arguments against globalization. Firstly there is no globalization except in money market, secondly economic process could not direct or determine a nation's policies. To support his first argument, he argued even in the 1990s that one found little evidence of globalization by indicating that, firstly interdependence of states had increased but only to about the 1910 level if measured by trade or capital flows as a percentage of GNP. Secondly globalization is not global but is mainly limited to northern areas. For many countries, the degree of participation in the global economy varies by region. Thirdly money market may be the only economic sector one can say has become truly global.

To prove his second argument, Kenneth Waltz argued that expected uniformities of form and function did not appear by examining French and Germany and even if all politics has become global, economies remain local to a surprising extent. In addition, trade and technology do not determine a single best way to organize a polity and its economy. Finally he concluded that the world is less interdependent than is usually supposed and the sovereign state has proved to be the best organization for promoting peace and economic wellbeing.

Robert Cox adopted more flexible position in the issue of globalization. In the article "Globalization and the State," he recognized the tendency of globalization especially in the economic sphere. However, through the internal adjusting to the growing global economic consensus, states would not be less powerful than they were before. Both Kenneth Waltz and Robert Cox firmly believed that even though there is economic globalization, a sovereign state would keep its autonomy in relevant policies in present and near future.

### **New Thinking about Sovereignty**

The arguments supporting globalization above are trying to say the same thing; the autonomy and authority of sovereign states had been limited and damaged politically, economically, and socially by the new globalization caused by innovative technologies mainly in 1980s and 1990s. It would be hard to judge whether globalization is desirable or beneficial for mankind. However, this is the tendency that is actually happening around the world. Trying to deny it by arguing that sovereign states are still the most important actors in world politics does not disprove the existence of globalization. And almost none of arguments supporting globalization argue sovereign states are no longer important or forced to the periphery of global politics. They argue that the political, economic, and social globalization that have begun in last decade or two have brought new qualitative change around the world. The autonomy, authority, and sovereignty of states are only parts of many dimensions that are influenced by globalization.

### **References**

- Frank J. Lechner and John Boli., 2004, *The globalization reader*, Malden, MA : Blackwell Pub.
- Lipschutz, Ronnie, ed. 1995. *On Security*. New York: Columbia University Press.
- John Ikenberry, 2002, *America unrivaled : the future of the balance of power*, Ithaca : Cornell University Press.
- Ken Booth, Tim Dunne & Michael Cox, 2001, *How might we live? : global ethics in a new century*, Cambridge, U.K. ; New York : Cambridge University Press.
- Malcolm Waters, 2001, *Globalization*, London ; New York : Routledge.
- Paul Viotti and Mark Kauppi., 1998. *International Relations Theory: Realism, Pluralism, Globalism and Beyond*. Boston: Allyn and Bacon.
- Pauline Marie Rosenau, 1992, *Post-modernism and the social sciences : insights, inroads, and intrusions*, Princeton, N.J. : Princeton University Press.
- Thomas Friedman, 1999, *The Lexus and the Olive Tree*, New York : Farrar, Straus, Giroux.



# Creating an Organizational Paradigm for Strengthening PECC

*Darson Chiu*

The Pacific Economic Cooperation Council (PECC) had been the most important economic forum in the Asia-Pacific region during the 80s. PECC gave birth to Asia-Pacific Economic Cooperation (APEC) by providing the operating template regarding how to manage a nonprofit organization and a multilateral economic forum. This article intends to examine the current paradigm of PECC, explain why the current paradigm is inadequate, then design a new paradigm to replace the old paradigm and improve the operation of PECC, and evaluate the effectiveness of new paradigm.

## **Background of PECC**

PECC is an international organization in the region of Asia-Pacific founded in 1980. PECC comprises tripartite representatives from business, government, and academic circles of 25 member economies. "PECC is policy oriented, pragmatic and anticipatory. Its work program aims for better cooperation and policy coordination in areas including trade, investment, finance, human resources development, and all major industrial sectors." PECC's goal is to promote economic development and cooperation in the Asia-Pacific region.

The Standing Committee comprises chairpersons of all member economies and is the governing body of PECC. The decision-making of PECC is consensus-based, and the Standing Committee makes all major decisions regarding organizational vision, objectives, structure and management. The PECC International Secretariat located in Singapore is in charge of coordinating member economies, organizing conferences, and managing the central fund. PECC also consists of three sub-fora including trade, finance and community building forum. These

fora currently serve as the primary mechanism for work program to promote development and cooperation among economies on relevant issues.

PECC had been the most recognized and important organization in the Asia-Pacific region during the 80s before the establishment of APEC. It is necessary to bring up APEC while introducing PECC because APEC contributes to the open systems of PECC. Founded in 1989, APEC is a governmental grouping, which consists of senior officials, ministers and leaders from 21 economies in the Asia-Pacific. APEC's goal is also about facilitating economic growth and cooperation in the region. With great geographic, functional and objective similarity, PECC and APEC both rely on supplies of resources from the same region to sustain their organizational operation. APEC has been dominating PECC by gaining additional attention and contributions, because APEC is more influential than PECC with the governmental endorsement.

## **Examination of PECC's Current Paradigm**

Overshadowed by APEC, PECC has now faced difficulties in financing its organizational function. Some member economies have stopped paying membership fees to PECC, and several member economies claim to withdraw from PECC, because they cannot afford to join two organizations in the same region at the same time. The current paradigm guiding PECC is dealing with an unsolvable anomaly, so a paradigm shift is necessary. This section examines PECC's current paradigm from three major organizational perspectives, namely, rational, natural, and open systems.

### *Rational Paradigm*

"From the rational system perspective, organi-

zations are instruments designed to attain specified goals." The goal of PECC set in 1980 is to promote the economy in Asia-Pacific region. The rational system "refers to the extent to which a series of actions is organized in such a way as to lead to predetermined goals with maximum efficiency."

The organizational goal as grand as it is has been guiding PECC's actions since 1980. Scott offered that it is possible for an organization to pursue an irrational goal through rational means. To pursue that existing goal, PECC has to operate like the only official organization in the region charting agendas and calling for meetings to gather representatives from 25 economies to discuss feasible economic policies. The fact is that APEC that consists of governmental officials across the region is the most powerful decision maker in the region.

PECC requires its member economies to meet twice a year for attending the Standing Committee meetings. The fact is that PECC does not have the luxury and demand to summon two administrative meetings a year with its poor financial status and diminishing attractiveness. A strict rational system is inadequate for PECC.

### *Natural Paradigm*

The rational theorists value organizations, whereas the natural theorists value people. Unlike the rational paradigm concentrating on the formal organizational structure, Scott believes that the natural system model focuses on the informal structure. According to Scott, the natural system model generally suited for professional or nonprofit organizations is an ideal system for PECC. The PECC International Secretariat led by a director general employs six staffers. PECC removed two director positions in 2003 to make the structure less formal. There is no middle management between the director general and staffers now, so the secretariat is operating with a rather flat structure.

The secretariat has maintained a zero rate of turnover since the year of 2003. The current director general's term will end in September 2005, and the soon to be available position has attracted more than 100 applicants. From the natural system perspective, the PECC International Secretariat has successfully met the needs of its internal employees and attracted

external talents as well.

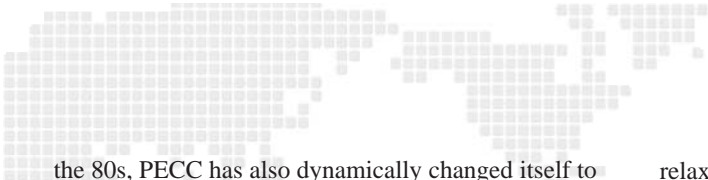
Because PECC is an international organization, its natural system will also include its member relations in addition to its human relations system. PECC definitely needs to work on its member relations because its members are not very committed to the organization currently.

### *Open Systems*

The open systems has on the one hand nourished, and on the other hand constrained PECC's development and operation. Let us draw on Scott's approach to look at two characteristics of PECC related environments: material-resources and institutional. The feature of material resources stresses that "all must enter into exchanges with the environment." In order to sustain its development and operation, PECC relies heavily on two essential resources in the region, financial contributions and participation from member economies, since "all organizations must secure a continuing supply of resources—including participants—from their environment." Overwhelmed by APEC, PECC has lost its competitiveness in terms of acquiring resources from the region; therefore PECC has transformed its role from a competitor to a partner of APEC. PECC has become a think-tank to APEC, and called itself "APEC Second Track." PECC has executed a number of APEC projects, and this relationship has been a positive development for the growth of PECC.

By looking at the institutional characteristic of environments, PECC has transformed itself from an economic cooperation forum to a think-tank, and undergone a major structural change by dismissing 17 task forces and replaced them with three forums, Trade, Finance and Community Building to reduce operational costs. From The normative perspective, PECC's participants pushed for an internal change of framework in response to a different external environment. From the cultural-cognitive perspective, PECC has charted its agendas so as to synchronize the cultural differences among economies in the Asia-Pacific region. "The best way to organize depends on the nature of the environment to which the organization relates." Established to meet the needs of the Asia-Pacific environment in





the 80s, PECC has also dynamically changed itself to fit in its environments at different phases. By examining PECC's current organizational paradigm from the rational, natural and open systems perspectives, we can see that PECC is operating with a system that combines all three major organizational paradigms.

### **Design of the New Paradigm**

The rational, natural, and open systems all share a common position that is every organization possesses its unique characteristics due to its diverse functioning. The distinctive of PECC is not profit-driven but service-oriented; therefore the new paradigm has to take PECC's characteristics into consideration. Organizational paradigm normally designed for industrial firms should be inadequate for PECC. Before creating a new paradigm, it is important to define the paradigm for PECC.

#### *Defining New Paradigm for PECC*

"No natural history can be interpreted in the absence of at least some implicit body of intertwined theoretical and methodological belief that permits selection, evaluation, and criticism," so Kuhn argued that paradigm is the ultimate guideline for scientists to conduct scientific activities. Scientists following the original paradigm encountered difficulties and failed in solving some puzzles, and these unsolvable puzzles became anomalies. The anomalies for PECC are: a) PECC has to face the problem regarding the limitation of regional resources; b) PECC has no power to allocate regional resources; and c) the spotlight is not on PECC anymore. To solve these anomalies, PECC needs to look for a new paradigm. The new paradigm for PECC is designed from the basis of the existing paradigm.

#### *New Rational and Open Systems*

The new paradigm for PECC is also a combination of three major organizational paradigms; however, it is a flexible combination of less rational and more natural as well as is reflexive to the open systems. Based on the results of examining PECC's current paradigm, PECC needs to

relax its rational system by narrowing the scope of its goal and objectives to be achievable, revisiting its goal and objectives on a regular basis in response to environmental changes, canceling redundant activities to reduce operational cost, and continuing to cooperate with APEC. PECC could revisit its goal and objectives and distinguish them from APEC's goal and objectives so as to create new demand for obtaining resources. PECC ought to consider an alternative goal such as promoting APEC to the center of global arena. In addition, PECC should schedule meetings based on actual needs, and attempt to fully utilize modern technology such as inter-net to manage information flows and exchange opinions. PECC has been working on APEC projects to obtain financial support from APEC. PECC needs to continue this partnership by incorporating its relationship with APEC into its rational system.

#### *New Natural and Open Systems*

Postmodern management has the following important features: a) focusing on heterogeneity and diversity; b) believing in democratic processes; and c) paying attention to the external changes. The new paradigm should put greater weight on the natural system, and the proposed way is to incorporate postmodern management into PECC's natural system. PECC is an international organization that consists of 25 member economies, whereas the 25 member economies also bring in 25 diverse cultures. Respect and pay attention to diverse culture is important for PECC to keep its members. In addition, 25 member economies could generate as many as different ideas, so possible disagreement is inevitable. The democratic process stressed by postmodern management is what PECC needs to continue and adopt to seek the common ground out of the potential conflicts. The rule of consensus should continue to serve as PECC's decision-making mechanism. In addition, PECC could consider about forming a caucus when attending other international arenas so as to unite and empower its voices.

Regarding the postmodern feature of being cautious about external changes, PECC particular needs to pay great attention to the open systems by

thoroughly studying APEC, since APEC is part of PECC's open systems. PECC could arrange its members that also own APEC membership opportunities to host APEC and PECC joint conferences. Member economies would appreciate the idea of joint conferences that reduces the relevant transactional costs. PECC could also pave the way for its non-APEC members to attend APEC activities.

## Evaluation of the New Paradigm

The new paradigm designed for PECC is associating the postmodern management with a flexible combination of three major organizational paradigms with less rational and more natural, and with respect to open systems. This section evaluates the new paradigm to see if it can revitalize PECC from the perspective of limited resources, and by Boleman and Deal's improving human resource management to increase organizational effectiveness.

From the perspective of available resources in the region, the new paradigm proposes to revisit PECC's goal with regard to obtainable resources. The new paradigm also suggests PECC revisit its goal and create new demand to acquire this region's resources, and continue to cooperate with APEC to share resources. The scarcity of available resources for PECC is one of the anomalies that PECC fails to cope with. The new rational and open systems paradigm particularly designed to deal with the problems related to resources should be able to alter the status quo.

Boleman and Deal believe that in order to increase organizational effectiveness, the organization must improve its human resource management by keeping, investing in and empowering employees. As mentioned earlier, PECC is an international organization; therefore PECC ought to be cautious about both human and member relations. PECC's human relations system does not encounter an unsolvable anomaly as examined earlier; however, PECC's member relations system has trouble keeping its committed members. Fuller and Barnett argue that, "people are likely to become committed to an organization when they feel that the organization is committed to them." By applying this argument on PECC and its member economies, PECC has to

commit to its members to trade for their commitment. The new natural and open systems paradigm proposes to respect and value all members, continue to exercise a democratic system, and form a PECC caucus so as to empower members and win a role for PECC at the international stage. Losing a significant role in the region of Asia-Pacific is another anomaly that PECC cannot handle. The new natural and open systems paradigm designed to target at making members to commit and improving PECC's identity should be sufficient to replace the old paradigm.

## References

- Anderson, W. T. (1992). *Reality isn't what it used to be*. San Francisco: Harper and Row.
- APEC, (1989). Retrieved Feb. 11, 2005, from Asia-Pacific Economic Cooperation Web site: <http://www.apecsec.org.sg/apec.html>
- Bolman, L.G. & Deal, T.E. (2003). *Reframing organization: Artistry, choice, and leadership* (3<sup>rd</sup> ed.). San Francisco, CA: Jossey-Bass.
- Fuller, J.B. & Barnett, T. (2003). A social identity perspective on the relationship between perceived organizational support and organizational commitment. *The Journal of Social Psychology*, 143(6), 789-791.
- Kuhn, T. (1996). *The structure of scientific revolutions* (3<sup>rd</sup> ed.). Chicago: University of Chicago Press.
- PECC, (1980). Retrieved Feb. 11, 2005, from Pacific Economic Cooperation Council Web site: <http://www.pecc.org/>.
- Scott, W. R. (2003). *Organizations: Rational, natural, and open systems* (5<sup>th</sup> ed.). Upper Saddle River, NJ: Prentice Hall.



# Korea's Lessons for Taiwan: Film Industry Policies

*Florencia Huang*

## **Taiwan's Film Industry**

The United States has been exporting movies all over the world. The result is that Taiwan's cinema has faced strong competition with reduced market share for national films. According to the statistics in 1999, Hollywood movies made up about 92% to 96% of Taiwan's cinema box office revenue. This is to say, Taiwan's cinema market is in danger. Ironically, Taiwan's documentaries have started to get frequent exposure and high reputation in international festivals. In 2002, the government implemented "Challenge 2008: National Development Plan," in which the cultural industries became the target for promotion and film industry in particular.

In order to develop policies in Taiwan for film industry, the Korean experience could provide some constructive suggestions, since the production of movies have become one of the competitive industries for Korea. In the following paragraphs, we will compare some essential part of the film industry policies between Korea and Taiwan.

## **Comparison of Korea and Taiwan's Policies**

To set up film screen quota is essential to ensure national films' exposure. Korea in 1993 implemented a Film Improvement Law that set up the screen quota system for Korean movies. The protection Law was once pressured by the United States to be dropped in 1998 during the economic crisis. However, under strong pressure from 57 Korean social groups, the Law reminds in existence. The Law states that theaters should play Korean movies at least two fifth of a year, that is, about 146 days. Since this Law is well implemented, Korean movies production has increased by 35%, and the box office sale has risen to 200%.

In contrast, Taiwan's original national film quota system has never been put into practice. Structural problems remain unsolved, as movie theaters rationalize their uncooperative action for absence of enough number of quality national films. This has paralyzed Taiwan's screen quota system. Moreover, with Taiwan's entry to WTO, Taiwan's audiovisual service market is forced to open. The United States' eight major media giants, Warner Brother, Colombia, 20th Century Fox, Paramount, Universal, UA, MGM, and Walt Disney, have monopolized the market and indirectly constrict Taiwan's national screen opportunity. Facing this problem, both Korea and France adopt national laws in the name of cultural diversity and cultural exception principle to protect their film industry. Why did Taiwan cede right so easily to trade liberalization?

In 2003, the Taiwan government amended the National Film Law. The method put into practice had been to subsidize every theater, so as to put national films in theaters. The purpose is to let local movies to get exposure in the market. However, some theaters were not willing to play national movies for small amount of subsidy from government, so they chose to request more money from the producers of national movies. The producers would have to pay, if they would like their films to be played. The policy never achieved its effect.

Besides the screening problem, the further step to modify market structure for the film industry is also essential. This means to rationalize the income distribution rate of box office, and to refuse to accept package dumping strategy. To address existing market structural problem, we have to change the unfair income distribution between the eight media groups and local movies theaters. Normally, the distribution rate is 70% for the bloc of eight and 30% for local theaters in the first screen week. Local part

will increase 5% box office income every week. However, normally, one film will not be in the screen more than one month. This is to say the bloc of eight will get over 60% of total income, because normally the first and second week will have more attendance than the following weeks. Moreover, the bloc of eight sales movies in package that consists of not only films that already get great box record, but also those that did not. Facing this unfair market mechanism, most of the small theaters do not have power to bargain for its own benefit. Facing this situation, the government should think of how to intervene properly.

From the production point of view, to offer free instrumental assistance is better than giving subsidy. Korea has noted that the effective way to help filmmakers is to offer instrumental support. Thus Korea has constructed film making room, offering from design to production assistance for small and medium enterprises that couldn't afford to purchase such expensive hardware. Instead of giving subsidies, the Korean government chooses to share the production cost, and encourages young people to devote their creativity to film production. In comparison, Taiwan offers many different kinds of assistance. However, the highest subsidy amount never surpasses over 30% of total production cost. There is also strict quota and complicated process to request for assistance. This kind of assistance does not help small and new production companies, as they cannot afford expensive equipment.

After completion of the film, marketing is another challenge. Thus to construct an international marketing network to facilitate diffusion is also important. Korea cooperates with foreign agents and companies to build international marketing network for Korean films for export. This is to say, the government offers a widely spread network to circulate their products. A Korean filmmaker could easily get resources from the government to export their goods.

Moreover, in order to promote films, the holding of international film festival is the most common way to do so. In 1996, Korea started to hold Pusan International Film Festival. The purpose is to encourage filmmakers, seek for foreign investment, advance technology and generate cooperation with Korean

film productions. This year, Korea will seek to promote APEC cultural cooperation through Pusan International Film Festival, so as to make further expansion to the international scene. In contrast, Taiwan's Golden Horse Award is limited to a regional scale.

To talk about the film industry market, we should also think about the market demand part. Why is there limited market demand for Taiwan's national films? Why does Taiwan's documentaries with extraordinary artistic performances, never get profit from the market? From this point of view to think about Korean movies might explain why Korean movies with relatively lower production technology than developed countries could compete with others in the market share. Definitely there is something outstanding about Korean movies. The only answer to explain is the common and unique theme that makes it possible to sustain the market share. This is not only at the industrial level, but also at the textual level. The capture of common theme that human being values, along with their unique cultural style and historical background have led to the success of Korean films.

From the human resources part, Korean universities produce plenty of labor force for the film industry. The drama department is the first choice for Korean youth. Obviously, there exists a strong demand and supply connection between education and market orientation in Korean film industry.

In sum, we could conclude that Korea adopts effective policies for their film industry from both innovative production and marketing part. The innovative input comes from the education formation and incubation, and the equipment offered to encourage film production. These factors have caused the cultivation of innovative action and development of human resources and reduction of the production cost. From the marketing part, the integrated marketing network makes it possible for Korean movies to get large exposure in the world market.