

BOOK REVIEWS

***Pacific Dynamism and the International Economic System.* Edited by C. Fred Bergsten and Marcus Noland.** Washington, D.C.: Institute of International Economics in association with the Pacific Trade and Development Secretariat, the Australian National University, 1993.

This book contains analytical and empirical papers by some of the most pre-eminent researchers of the Asia-Pacific region, the fastest growing region of the world economy. The papers were originally presented at the 20th Pacific Trade and Development Conference (PAFTAD 20) held in Washington in September 1992.

Pacific Dynamism is a timely publication, especially now that the North America Free Trade Agreement (NAFTA) has been formally approved and the countries of the Asia-Pacific are seriously talking about inter-regional and trans-Pacific arrangements for economic integration. At the present time several possible scenarios exist, with differing groupings and agendas in mind. Thus, the six-nation Association of Southeast Asian Nations (ASEAN) have already declared 2007 as their target date for the creation of an ASEAN Free Trade Area (AFTA), and Malaysia has persistently advocated for, but seems unlikely to succeed in getting, a non-English speaking trading partnership amongst the Asian countries. On the other hand, the larger Asia-Pacific Economic Co-operation (APEC) hopes to promote integration around a huge Pacific Free Trade Area (PAFTA) linking the countries of the Far East and Southeast Asia along with Australia and New Zealand with those in North, Central and Latin

Americas. In the latter case, world trading is likely to evolve as a bipolar system (i.e. European Union and a sort of trans-Pacific Community) rather than as a set of multipolar trading blocs, thereby lessening the risk of trade wars, especially now that the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) negotiations is successfully concluded. This, at least, is the major hope of the editors of *Pacific Dynamism*.

The book contains 12 papers, organized into four main parts. Part I offers a concise and clear overview of the entire volume by the editors.

The second part consist of three papers dealing with the past, present and future of the international economic system. Global trade flows are examined, analytically and empirically, in the paper by Grant, Papadakis and Richardson, while the Uruguay Round and GATT negotiations, and the issues of globalism versus regionalism are the themes of papers by Whalley and Young respectively. Both Whalley and Young share a common perspective: that today's world trading system is outmoded and this is valid regardless of whether or not the Uruguay Round is successfully concluded; the fact is that the system is radically different and faces new challenges, especially from a multiplicity of regional integration arrangements (RIAs)—Young counts no less than 34 RIAs in early 1992 with a further 17 prospective ones in the pipeline—and, therefore, the institutional and legal bases of the system needs updating from its 1940s foundations in order to safeguard global trade based on nondiscrimination, and competitive access to markets, and to avoid inward-looking trading blocs.

The third and fourth parts of the *Pacific Dynamism* are focused on the regional institutional arrangements for trade and the systemic implications of Pacific dynamism. Wijkman's paper is addressed to the European Community (EC) experience, somewhat optimistically since it was written prior to the current economic recession and the collapse of the European monetary union, and assumes that economic and political integration will continue rather smoothly past the European Free Trade Association (EFTA) accession and set on the post-Maastricht course with future enlargement either by the fast-track route (as in the case of Scandinavian countries and Australia) or a sidetrack process aimed at incorporating the East European economies, with Turkey, which applied for full membership in 1987, being left out in the cold as one of "the Orphans of Europe", a prospect that is unlikely to normalize Greek-Turkish relations since the former is already in the European Club. Wijkman finds much to applaud in NAFTA, in which he sees significant similarities in political and economic criteria with the EC, but he is unconvinced about the prospects of the proposed integration schemes for the Asia-Pacific.

English and Smith are more positive about the consequences and implications of NAFTA for the Asia-Pacific trade partnership through an evolutionary process of enlargement of super-regional trans-Pacific organizations out of those already established, namely, the Pacific Economic Co-operation Council, (PECC), a tripartite grouping of business, government and academic representatives, and the Asia-Pacific Economic Co-operation, a ministerial level grouping. Conceptually, English and Smith are multilateralists who would prefer trade expansion through GATT liberalization based on nondiscrimination and competitive access to markets. They nevertheless argue that such regional trading arrangements as NAFTA could be reconciled with multilateralism by the accession of new members to APEC thereby moving it closer to an OECD-type trans-Pacific superregional organization. English and

Smith believe such enlargement, based on the conventional MFN clause, would be the most practical way to avoid the emergence of Fortress North America as a result of potentially damaging trade and investment diversion, fears already being expressed in some Southeast Asian countries. Whether or not English and Smith are too optimistic will depend, in the shorter term, on how readily the United States and Japan can assume the lead in this enlargement process. Ultimately, however, the evolution of NAFTA in the cause of multilateralism will depend on the results of the Uruguay Round, especially on such sticky issues as subsidies, services, antitrust and competition policies.

Drysdale and Garnaut are also concerned about growing regionalism in world trade, but are quite optimistic about continued growth and expansion in Pacific trade based on what they term the "prisoner's delight", i.e. the willingness of these countries to reform their industrial and trade strategies unilaterally in pursuit of gains of trade, a strategy that has been paying handsome dividends. This case of "open regionalism" is expected to be the driving force behind future trade deals in the trans-Pacific APEC region.

A significant contributing factor behind Pacific dynamism has been the largely private-sector driven sub-regional trading arrangements cutting across national boundaries, for example the Johore-Singapore-Riau *Growth Triangle*. Chia and Lee devote their paper to an examination of several similar examples now in various stages of development in China, Vietnam, Thailand, in addition to the original three, viz. Malaysia, Singapore and Indonesia. Of critical importance in this sub-regional integration process is the role of private capital, mostly from Overseas Chinese and primarily concentrated in Taiwan and Singapore, which is financing a new form of transnational economic zones where the national authorities in Southeast Asia often feel left behind.

The fourth and final part of *Pacific Dynamism* contains a set of varied, but interesting, papers. Shujiro Urata describes the changing investment

flows in the region and analyses the impact of these flows on the Asia-Pacific economies, documenting, in particular, the increasing role of Japan both as financier and source of technology transfers. The rising importance of the Yen, discussed by Takatoshi Ito, is underscored by the fact that now more than half of Japan's exports to Asian countries is denominated in yen, although only a quarter of Japan's imports from these countries is similarly denominated. In addition to capital movements, the region is witnessing human capital flows, a topic addressed in Glenn Withers' paper. The environment and its inter-relationship with trade and growth is explored in the paper by Kym Anderson; clearly, however, environmental policy is in its infancy in national policy, let alone in a harmonized, regional context and in future there will be some difficult challenges facing Pacific countries as these countries attempt to reconcile their domestic environmental policies with those of their trading partners. In a highly interesting final paper, Hadi Soesastro attempts an integrative exercise linking the unfolding post-Cold War trade with security and political implications for the Pacific region, cautioning against the danger of splitting the Asia-Pacific economy into a U.S.-led NAFTA and EAFTA, a Japan-led East Asian FTA.

At this point in time, the future course of world trade is less than clear, not only pending the implementation of the Uruguay Round and the timing of the economic turnaround in major industrialized economies, but also because the eruption from the end of the Cold War era is far from over in the former Soviet Union, in Eastern Europe, the Balkans and elsewhere. In the meantime, dynamism in the Pacific region continues undiminished, with China now as the fastest growing economy in the world, and some observers are predicting that the twenty-first century will be the *Pacific Century*. President Clinton, in the November 1993 Seattle summit with 14 APEC leaders, called for the creation of a *Pacific Community* pledging American readiness to be a "full partner in Asian growth".

Is this overly optimistic, wishful thinking? Some, no doubt, will think so pointing out that the scenario glosses over the many sources of discord which divide Asian and American nations: for example, environmental standards and human rights are often perceived in Asia as a sort of "Western Crusade" designed to impose new "conditionalities" on trade, while there is concern in many Asian capitals that NAFTA is nothing else than a North American Greater Co-Prosperty Area intended to counter-balance Fortress Europe. Neither are future risk and uncertainty limited to foreign affairs: on the domestic front there are pending regime changes in several Asian nations such as China, Indonesia, Malaysia to cite the more apparent cases, with far-reaching, yet unpredictable, consequences for world economy. On the other hand, the same pragmatism which has guided and fuelled much of the post-war Asian growth may well triumph over scepticism. Only time will tell!

None of the above, however, reduces the value of *Pacific Dynamism* as a well-timed publication full of up-to-date facts and perceptive analysis. This book is a treasure house of useful information, and is essential reading for anyone interested in the past, present and future of trans-Pacific trade.

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Open Regionalism? NAFTA, CER and a Pacific Basin Initiative. By Sir Frank Holmes and Crawford Falconer. Wellington: Institute of Policy Studies, 1992. Pp. ii and 238.

The central theme of the Holmes and Falconer volume is that the movement towards open regionalism in the Pacific Basin will not end with the North American Free Trade Area (NAFTA)