



Model APEC Delegate Handbook

Model APEC is a dynamic student-based learning simulation for understanding global issues and geopolitical and economic relationships.

The **purpose** of Model APEC is to develop Cincinnati area students' knowledge of contemporary world issues through an on-line and face-to-face role play simulation of the Asian Pacific Economic Cooperation Forum

This simulation will enable you to experience the process of conducting international negotiations in an institutional context of consensus. This packet is provided to assist you through the simulation that culminates in a Ministerial Meeting on **March 4, 2000** on the campus of the University of Cincinnati.

Objectives:

- To develop an understanding of the structure, the strengths, and weaknesses of the Asian Pacific Economic Cooperation (APEC);
- To foster students' improved understanding of global issues;
- To develop knowledge and awareness of cultural differences and viewpoints;
- To build negotiation and communication skills by providing a collaborative work experience;
- To foster knowledge of the Asian Pacific region.

An effective Model APEC delegate should be prepared to:

- **Express** the actual positions of his or her member economy;
- **Listen** to the views of other nations and be ready to **defend** or **modify** positions;
- **Negotiate** with other delegations to gain support for a resolution and to **develop consensus**.

Acknowledgements

The University of Cincinnati Department of Political Science and the World Affairs Council of Greater Cincinnati thank Toyota Motor Manufacturing North America for their support.



Structure of the Simulation

This section will explain how the simulation will proceed, how you should prepare for your role, and the rules that should be followed.

Timeline

Week of January 10	Member economy and role assignments announced
Week of January 17	Individual and group research begins
	Website launched at http://ucaswww.mcm.uc.edu/polisci/harknerj/490apec.htm
Weeks Jan.24-Feb.7	Continue research
February 8	Policy paper due

ONLINE PHASE				MINISTERIAL MEETING
WEEK 1	WEEK 2	WEEK 3	WEEK 4	
Feb.7-11	Feb. 14-18	Feb. 21-25	Feb. 28-Mar.3	March 4, 2000 9:00 a.m.-1:30 p.m.
<ul style="list-style-type: none"> Feb.8 --Policy papers due Feb 10-18 First period of diplomatic correspondence 	<ul style="list-style-type: none"> Diplomatic correspondence continues 	<ul style="list-style-type: none"> Feb. 23 -- Refined policy papers due Feb. 24- Mar 1 second period of diplomatic correspondence. 	<ul style="list-style-type: none"> Mar 1 – cut off date for second period of diplomatic correspondence. Final preparations 	<ul style="list-style-type: none"> Opening Plenary Issue Committees Country caucusing Issue committees Lunch Closing plenary

Role Preparation

There are three official roles representing each member economy:

Foreign Minister (and Deputy Foreign Minister) is responsible for an overall understanding of his/her member economy's positions regarding APEC and APEC issues. FMs will sit on the Foreign Minister's committee at the ministerial meeting. This committee will be responsible for making the final decision to come to agreement on any agenda issue and will be responsible for releasing the meeting's final communiqué.

Economic Minister (and Deputy Economic Minister) is responsible for understanding his/her member economy's positions as they relate to sustainable development. EMs will sit on the Industrial Science and Technology Group (IST). This committee will be responsible for reporting out on specific agenda questions on sustainable development that will be announced prior to the ministerial meeting.

Trade Representative (and Deputy Trade Representative) is responsible for understanding his/her member economy's positions as they relate to Intellectual Property Rights (IPR). TRs will sit on the Intellectual Property Rights Experts Group (IPEG). This committee will be responsible for reporting out on specific agenda questions on IPR that will be announced prior to the ministerial meeting.

NOTE: In delegations above three students, a team may appoint deputy ministers and representatives. For role-play purposes, during official meetings there will be no parliamentary distinction between ministers and deputy ministers. Both will be able to speak during meetings with equal authority. Member economies with deputies are encouraged to closely coordinate between the two representatives on each committee so that the presentations of their member economy positions are consistent and clear.



Background Research Checklist

Delegates should conduct background research so that they clearly understand:

- ☐ The structure of APEC
- ☐ The history of APEC
- ☐ Their member economy's general foreign and economic policies toward other member economies
- ☐ Their member economy's specific policy towards APEC and APEC's core issues
- ☐ The previous work of the Intellectual Property Rights Expert Group
- ☐ The previous work of the Industrial Science and Technology Working Group
- ☐ Their member economy's specific policy regarding intellectual property rights
- ☐ Their member economy's specific policy regarding sustainable development

The basics of all of this material can be found at the websites listed on our simulation homepage, although additional research is encouraged. The key is for each delegation to divide work responsibilities effectively.

Simulation Rules

Control

Control is the international system. Control should not be regarded as an independent actor, but rather as the manager of the game's environment. In order to maintain and update the flow and structure of the simulation, Control must be aware of everything that is going on. Control is not a puppeteer directing all action, but rather should be understood as a stage hand who creates the platform on which action will take place. Control simply sets the foundation for simulation participants to interact with each other. If all goes well, the participants' decisions and not intervention by Control is what will drive the simulation. **Professor Harknett and Mark Rebstock are your principal Control contacts.**

Player Interactions

Internal/Domestic – Each group member is expected to follow proper protocol within their governments. Member economy leaders should be granted institutional legitimacy by subordinate advisors and assistants should recognize the organizational authority of ministry heads. Each group may determine how formal the structure of “cabinet” meetings should be. However, it is recommended that an agreed-upon approach be set and followed throughout the project. Group meetings may be held at any time and without Control's pre-approval. However, a report, known as a memorandum of conversation (MOC) should be kept of any formal cabinet meeting so that a diplomatic record might be preserved. These should be forwarded to Control via email, so that Control has a sense of every member economy's progress toward the ministerial meeting

International – Diplomatic protocol must be followed at all times. Chance meetings between simulation participants of different member economies should be kept to a minimum and, in such instances, talking about the simulation should be absolutely avoided. The golden rule is stay in role as much as possible.

Communication

The primary mode of communication will be through email. All emails will be sent to **richard.harknett@uc.edu**

**There are 4 types of requests that can be made:**

1. **Information** – Member economies may ask their own bureaucracies (played by Control) for clarifications on issues and policies. Participants should have necessary information available for themselves, however, if there is confusion over a specific policy position or member economy information they can request help. Control is not a research arm, but rather will clarify confusion over information that member economy delegates have collected. These messages should have in the subject line the word “Information” followed by the member economy sending the message and the number of the request (for example Subject: Information-Japan-1).
2. **Diplomatic correspondence** – During the periods designated above, member economies may send each other diplomatic messages to discuss their positions more directly in advance of the Ministerial meeting. These messages may ask other member economies to clarify positions, encourage pre-meeting coordination, or help to develop joint action plans for the meeting. The Subject line should read: “Diplomatic Message” followed by member economy name and number of request. In the body of the message at the top you must specify to which member economies you wish to send the message. If you want to send it to everyone, just say to “All.” (for example, Subject: Diplomatic Correspondence-Japan-2).
3. **News Release** – Each member economy should maintain a “press office.” Press releases, off-the-record briefings, and speeches can be posted by Control on the website newsroom. Email Subject: “News Release” member economy name and number (for example, Subject: News Release-Japan-8).
4. **Admin** – If member economies have some administrative question about the simulation, they can ask control through an admin request. Subject: “Admin” member economy name and request number (for example, Subject: Admin-Japan-2).

You must keep a record of each request you send. Please take care to keep your numbering sequential. In order to manage this communication flow, each member economy should designate one person who will be responsible for sending all email and receiving responses. While this may seem a bit cumbersome, it will actually allow the simulation to run smoothly and guarantee that each member economy remains informed of what all its members are doing. **Control must be informed of who this contact email person is no later than January 18th.**

Email Attachments will not be accepted. Please send all messages in the body of an email. Do not combine emails. If you have an administrative question and an information question for example, they should come as two separate emails with the appropriate subject heading.

Red Gram

In extraordinary cases, member economies will submit requests or take actions that are entirely out of character for their member economy, outside the rules of the game, or simply impossible to accomplish. In these cases, Control will return the request form as a red gram, meaning that the member economy must stop all other activity and respond to Control immediately.



Policy position paper

The first policy position paper is due on Feb 8th. Each member economy must submit one copy to Control and a copy to each member of his or her member economy. UC students must submit the paper in disk format and hard copy. High school delegations can submit as email attachments to: world1@mindspring.com

Be aware of computer viruses and take care to make sure disks and attachments have been checked for viruses before submission. The papers, should be concise and well written at approximately five pages. An appendix should be attached with copies of all relevant documents to assist Control. See policy position outline later in this handbook for more detail. An updated paper is due on February 23rd after 2 weeks of additional research and diplomatic exchanges.

Ministerial Meeting

- On Saturday, March 4, 2000, Model APEC delegations will gather at the Ministerial Meeting on the campus of the University of Cincinnati. You will assume your role as leaders of the APEC economies and attempt to construct consensus-based resolutions to address each of the issues that have been placed on the official meeting agenda (to be circulated in February)
- During the opening session, a representative from each delegation will give a three-minute opening speech, summarizing their member economy's positions. At this time, delegations may communicate what their delegation wishes to see included in the final declaration. After the opening statements are given, you will be given time to meet in your school-groups to discuss what was presented.
- Following the opening session, you will enter into the three main committees. Here you will work to resolve disputes and piece together an agreement to be included in the final declaration. This is the "meat" of the conference, where you will have the most chance to interact with other delegates and debate the issues. Committee-issue meetings will last much of the morning, with scheduled breaks for member economy-delegation meetings and lunch.
- The two working group committees will have to report out at a specified time to the FM committee. The FM committee will be responsible for developing the final communiqué.
- All delegations will be brought together for a reading of the final communiqué and the meeting will come to a formal end.

*****Parliamentary rules will be used at the meeting. These rules will be posted on the website.**



Policy Position Paper Outline

Use this outline to help write your team's position paper, which will be due on Feb. 7th. The paper should be concise, clear and approximately 5 pages.

GENERAL INTRODUCTORY STATEMENT

- Describe your member economy's overall position regarding its participation in APEC and the discussions about to take place. This might review some of your member economy's previous positions at earlier APEC meetings and your general positions on issues important to your member economy. Do you wish to use APEC as a forum for liberalizing trade, for example?

Intellectual Property Rights Statement

- Review your position with regard to previous meetings of IPEG
- What is the current status of IPR in your member economy ?
- What do your economy's leaders envision for the future, both in your member economy and throughout the Asia-Pacific region?
- What do you want APEC to do to achieve this vision? (Do you even want APEC involved in this issue?)

Sustainable Development

- How does sustainable development efforts affect your economy? How much of your trade is conducted within APEC member-economies?
- What is the current status of environmental laws?
- What is current status of development?

CONCLUSION (Include your general expectations for the upcoming negotiations)

Remember this is a diplomatic document that will lead toward a consensus-based round of negotiations. You should see it as your opening position. Be careful and try to be informative and detailed for others.

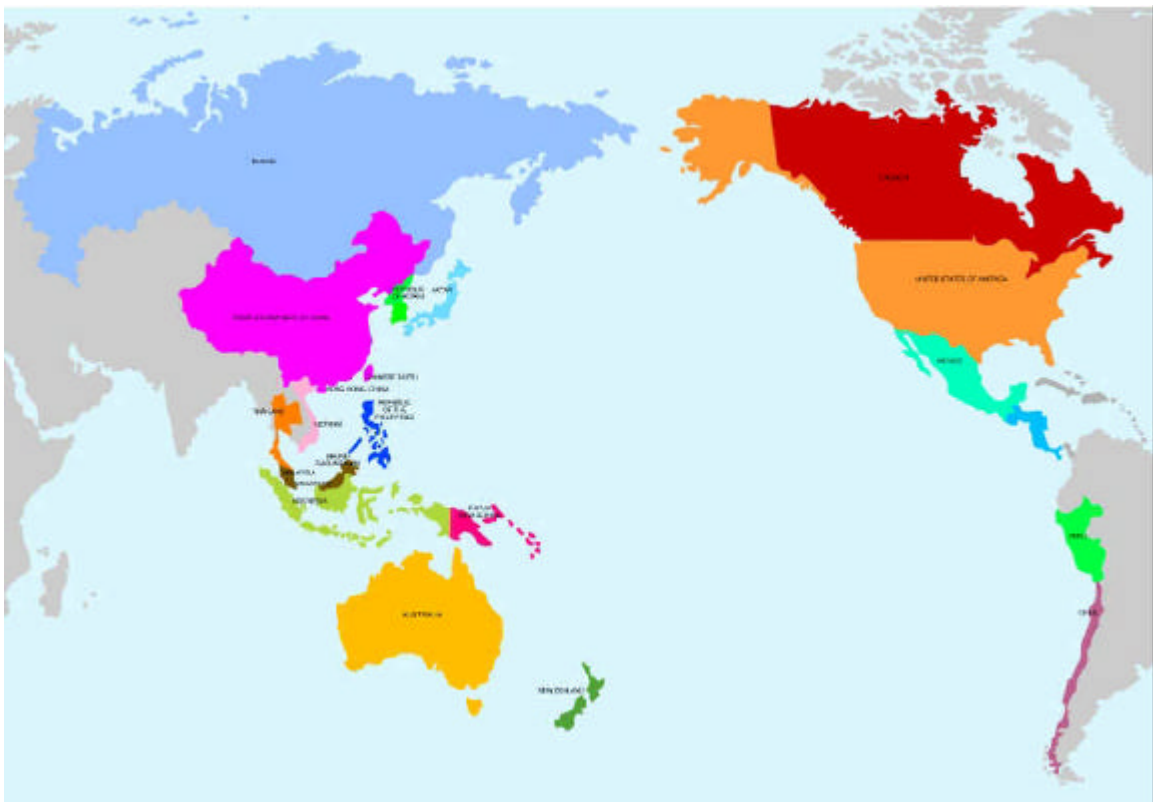


Basic Information on APEC

Asia-Pacific Economic Cooperation (APEC) was formed in 1989 in response to the growing interdependence among Asia-Pacific economies. The 21 economies in APEC comprise more than half the global population, 60% of world's gross domestic product, and 40% of world trade flows. The APEC forum has become the primary regional vehicle for promoting open trade and practical economic cooperation.

APEC operates on a consensus basis. All APEC declarations and actions must enjoy unanimous support by all member economies in order to be adopted by the organization.

APEC members are referred to as "member economies" rather than as countries or nation-states. This terminology emphasizes APEC's focus on trade and economic relations between governments. Also, this is only politically acceptable way to extend membership to Hong Kong and Taiwan (called Chinese Taipei in APEC). Hong Kong was a British colony recently returned to the People's Republic of China in July, 1998. Since the hand over, Hong Kong is now referred to as a Special Administrative Region of the People's Republic of China. The PRC considers Taiwan a breakaway province from mainland China, and Taiwan is not considered a nation-state by the United Nations and much of the international community.



MODEL



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Member Economies of APEC

Australia	Brunei Darussalam	Canada
Chile	People's Republic of China	Hong Kong, China
Indonesia	Japan	Republic of Korea
Malaysia	Mexico	New Zealand
Papua, New Guinea	Peru	Republic of the Philippines
Russia	Singapore	Chinese Taipei
Thailand	United States	Vietnam

APEC TIMELINE

1991	<p>APEC leaders met in Seoul in 1991 and issued the Seoul Declaration stating the organization's official goals:</p> <ul style="list-style-type: none"> - "to sustain the growth and development of the region for the common good of its peoples and, in this way, to contribute to the growth and development of the world economy - to enhance the positive gains, both for the region and the world economy, resulting from increasing economic interdependence, to include encouraging the flow of goods, services, capital and technology - to develop and strengthen the open multilateral trading system in the interest of Asia-Pacific and all other economies; - to reduce barriers to trade in goods and services and investment among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies."
1993	<p>The economic leaders of all APEC members held their first annual meeting in 1993 to discuss goals and plans for their achievement. This first meeting occurred at Blake Island, Seattle, Washington, and the members decided that APEC should promote economic growth and prosperity and strengthen cooperation between its members. They also agreed that all people in the Asia Pacific region should benefit from better jobs, higher incomes, and upward mobility as well as an improvement in environmental conditions.</p>
1994	<p>In 1994, APEC economic leaders met in Indonesia where they created the Declaration of Common Resolve. This declaration indicated a unanimous desire to implement free and open trade and investment in the region by 2010 for industrialized economies and by 2020 for developing economies.</p>



1995	<p>The following year the APEC leaders issued the Osaka Action Agenda following a meeting in Osaka, Japan. This agenda outlined APEC's plan for achieving free trade. Part I of the agreement discussed trade, and Part II dealt with establishing cooperative efforts in several areas including transportation, agricultural technology, and energy.</p> <p>In November 1995, APEC established the APEC Business Advisory Council (ABAC). This group of business leaders from all APEC members meets to develop suggestions about how to reach business sector priorities.</p>
1996	<p>Adopted in 1996, the Manila Action Plan described specific areas that could be targeted to meet the goals of the Osaka Action Agenda. These areas included the following: "greater market access in goods; enhanced market access in services; an open investment regime; reduced business costs; an open and efficient infrastructure sector, and strengthened economic and technical cooperation."</p>
1997- Present	<p>APEC works to continue liberalizing trade in various sectors including financial services. Another major APEC project aims to increase the level of business involvement.</p> <p>Additional APEC goals include achieving sustainable development, creating a more equitable level of development for all members, and increasing involvement by the general public (especially children and women).</p>
1998	<p>In November, 1998, APEC leaders met in Kuala Lumpur, Malaysia in light of a major financial crisis to renew their resolve "towards creating a prosperous Asia-Pacific community where economic disparities among our people will be bridged by strengthening the foundations of our economies for growth...." (The full text of the 1998 APEC Economic Leaders' Declaration can be found at http://www.apec.org/leaders_declaration.htm)</p>

For additional background information on APEC:

The official APEC web page:

<http://www.apecsec.org.sg>

For a brief description of APEC issued by the State Department:

http://www.usia.gov/regional/ea/apec/fs_apec.htm

For a summary of the Osaka Action Plan:

<http://www.usia.gov/regional/ea/apec/pbf3.htm>



A Backgrounder on APEC and International Trade

Trade issues have often been the focus of APEC summits, and the United States has often been successful in designating the pursuit of free trade the organization's top priority. The United States has carried a large trade deficit for nearly two decades.

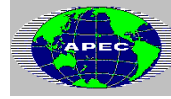
The United States has run large trade deficits with countries in East Asia, particularly in Japan and China. Washington believes that these countries, which have enjoyed relatively free access to U.S. markets, have maintained trade barriers. Hence, the U.S. blames its trade deficit on protection barriers that undermine the ability of companies operating in the U.S. to sell goods in East Asia. The U.S. has been particularly critical of Japan for maintaining quotas and tariffs on rice, which make it virtually impossible for farmers in the U.S. to sell rice to Japanese consumers. Besides these formal trade barriers, the U.S. has complained about the difficulty in penetrating Japan's multi-layered retail distribution structure. Japan also maintains large business networks that link companies from different industries via cross shareholding (stocks), interlocking boards of directors, common banks, and common trading companies. These companies have a tendency to purchase goods from other firms within their network rather than outside producers, including those in foreign countries.

A trade deficit arises when a country buys more products from abroad (imports) than it sells abroad (exports.)

China's markets are probably more closed than others although the country is gradually changing its economic system from a relatively isolated socialist economy to free market capitalism. China had been making some progress toward opening its economy until a financial crisis hit the region in late 1997. Since the onset of the Asian economic crisis, China has placed severe restrictions on the use of foreign exchange. By restricting the amount of foreign exchange available to Chinese companies, the Chinese government has limited the expenditures that domestic firms can make on foreign products. Hence, restrictions on foreign exchange limit imports. The U.S. has also been concerned about the extent to which Chinese entrepreneurs have pirated intellectual property rights from U.S. companies by counterfeiting CD's, computer software, cassette recordings, etc. Obviously, producers in the U.S. lose sales of exports when Chinese consumers purchase counterfeit CD's at half the price of the originals.

Some East Asian countries, particularly Japan, blame the U.S. trade deficit on inferior products and high prices. Japanese car manufacturers, for example, attribute low sales volumes of American cars to the failure of American manufacturers to adjust their products for the Japanese market. For years American car manufacturers tried to sell large cars with steering wheels on the left side, despite the fact that Japanese drive on the left side of the road and prefer small cars. Nevertheless, U.S. trade partners in East Asia have been fairly receptive to U.S. demands for free markets. Changes have come much more slowly than the U.S. would have preferred, but America's East Asian trade partners have at least tried to mollify Washington.

The U.S. has undoubtedly been successful in obtaining trade concessions from APEC members based on the power of the U.S. economy in the international marketplace and the stature of the U.S. in world affairs in general. APEC members sell a large proportion of their exports to the U.S., and the fear of losing access to this market provides considerable motivation for these countries to concede to U.S. demands. U.S. companies are also a major source of investment in APEC economies. Many countries also rely on the U.S. for military security. While the significance of U.S. security has lessened since the end of the Cold War, some countries still consider U.S. support vital to national security. Certainly, North Korea poses security risks for South Korea. Territorial disputes among APEC members over the



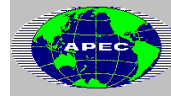
Spratly Islands in the South China Seas remains a source of tension in the region as well. Some analysts consider U.S. involvement in the region essential for reducing mutual suspicions among East Asian neighbors and preventing a regional arms race.

The Asian economic crisis has aggravated the U.S. trade deficit, which hit a record high in 1998 of \$250 billion. According to U.S. Trade Representative Charlene Barshefsky, exports to the Pacific Rim countries dropped by \$30 billion in 1998. Ms. Barshefsky makes no secret of the fact that trade friction with Japan and China has deteriorated rapidly in recent months. Judging from recent quotes by Ms. Barshefsky in the Asian Wall Street Journal, Japan will be Washington's number one target in trade negotiations in the months ahead. "From rice to flat glass to autos and insurance, Japan faces renewed friction and mistrust. Nothing positive, and much negative, can arise from the failure to resolve issues on our trade agenda."

Washington feels particularly pressed to act on trade issues because of demands from powerful U.S. interest groups. Declining exports and a flood of cheap imports has hurt some U.S. industries, and companies in these sectors want Washington to defend their interests. U.S. steel companies have accused Japan and Russia of unfairly "dumping" cheap steel on the U.S. market at prices below cost. The effects of imports of foreign steel into the U.S. market have indisputably taken a severe toll on U.S. producers. U.S. labor representatives reported a loss of 10,000 jobs in the steel industry in 1998. U.S. steel makers have demanded the initiation of a "special 201" case, which the Wall Street Journal has dubbed the "trade equivalent of a nuclear bomb." If the steel industry succeeds in pressing Washington to pass a 201 initiative, the U.S. would completely close its market to all steel imports.

The White House has come under increasing pressure from Congress to take action against Japan and other U.S. trade partners. Senator Arlen Specter (R., Pa.) and Senator John D. Rockefeller (D., W.Va.) recently introduced legislation to help U.S. industries qualify for import ceilings at times when business is damaged by sudden surges in foreign products. Ms. Barshefsky recently assured a group of congressmen from steel-producing states that the U.S. would impose punitive tariffs on steel imports unless trade statistics in the coming months show "substantial declines" in the amount of foreign steel sold to the U.S. Nevertheless, if possible, the White House would prefer to avoid the use of protectionist barriers for fear of provoking a trade war. Many economists believe the trade war in the late 1920s and early 1930s contributed to the Great Depression, and the White House obviously wants to prevent a reoccurrence of this economic catastrophe. At the same time, Congress will likely act on its own if U.S. delegates to APEC fail to obtain substantial concessions.

The U.S. may be in for a fight against Japan. Japan has gained support from the world community for criticizing the U.S. for making unilateral decisions to sanction countries in cases of trade disputes. The World Trade Organization (WTO), representing the United States and one hundred thirty three other members, opposes unilateral actions like those that the U.S. is now considering in the case of steel. The World Trade Organization's guiding principle has been that countries should participate in trade on the basis of multilateral agreements. If one country has a complaint about the practices of any other member, the World Trade Organization must settle the dispute in a multilateral forum. The U.S. is in a sense a rogue nation when it makes unilateral decisions. Japan has become increasingly bold in challenging the U.S. when Washington has threatened action against Japanese industries. In May 1995, Eastman Kodak Co. filed a complaint against Fuji Photo Film Co. and Japan's Ministry of International Trade and Industry (MITI) for impeding Kodak's efforts to sell products in the Japanese market. Japan refused to enter bilateral negotiations with the U.S. over the complaint and insisted on bringing the case to the World Trade Organization. In December 1997 the World Trade Organization's three-country panel of



Switzerland, Brazil, and New Zealand unanimously ruled in favor of Fujifilm and the Japanese government.

The U.S. may experience some difficulty in obtaining full support for Washington's demands for trade concessions from APEC members for two reasons. First, Japan plays a major role in most economies in the East Asian region. Japanese trade and investments rival those of the United States for many Asian APEC members. Moreover, Japan contributes more money to Overseas Developmental Assistance than any other country in the world including the United States. Disagreements between the U.S. and Japan over trade matters create somewhat of a dilemma for Asian APEC members: choosing sides one way or the other can create great difficulties in relations with a country vital to their interests. Moreover, even in the best of times U.S. and Japanese demands on trade and other economic issues can have serious consequences for APEC members and their own domestic interest groups.

Secondly, the U.S. may experience difficulty in obtaining full support for its demands because of the current economic and social conditions in East Asia and elsewhere to a lesser degree. In short, most APEC members have much more pressing and urgent concerns than the U.S. trade deficit. Thailand, South Korea, Indonesia, and Malaysia suffered steep contractions in their economies last year. Many other economies in the region are in recession. In a few countries economic hardships have led to political and social chaos. Student demonstrations in Indonesia led to the fall of President Suharto and continue to haunt the politicians who replaced him. Groups of Indonesian natives have at times taken their frustrations out on the Chinese minorities who live in the country. Indonesians of Chinese heritage have been prominent in the business community for years, and the economic crisis has turned them into scapegoats for angry mobs. Chinese businesses have been burned and Chinese women and children have been raped.

The U.S. is willing to focus on the Asian economic crisis at the summit, but the White House considers free trade to be part of the solution to problems in the region. The U.S. basically agrees with the assessment of the International Monetary Fund (IMF), the international organization that lent money to Thailand, Indonesia, and South Korea to bail them out of their financial crises. In return for loans, the IMF ordered these countries to balance their budgets, improve regulations over the lending practices of financial institutions, force inefficient producers to liquidate their holdings, break ties between the government and large business groups, enforce strong antitrust regulations, and open economies to foreign direct investments (FDI). The White House considers opening economies to goods produced in the U.S. to be compatible with the IMF's recommendations. Competition from the U.S. will force well-managed companies in East Asia to become more efficient and run poorly managed firms out of business. East Asian governments must stop protecting companies with which they have close ties. Instead, governments need to regulate business in order to ensure sound financial practices and a competitive business environment.

Many, but not all, East Asian leaders have little sympathy for the U.S. perspective and believe it is the wrong time to be discussing trade liberalization. Their lack of sympathy for the U.S. position can in part be explained by the U.S. economy's strong performance in 1998. The U.S. economy realized extraordinary growth in 1998, at a time when economic deprivation was leading to social disorder in East Asia. East Asian leaders consider U.S. concerns trivial in comparison to their own. Many East Asian governments also question IMF policies and the wisdom of U.S. advice to continue to liberalize their economies. Some East Asians blame liberalization of financial markets, which countries pursued on the behest of the U.S., for the onset of the crisis. They question whether the free wheeling American capitalist model is appropriate for their countries.



Many people from East Asia consider the conditions that the IMF placed on loans to countries in crisis to be unnecessary and unwise. First, the IMF forced Asian governments to follow austerity programs that were inappropriate for the conditions of their economies. Programs for balancing national budgets made little sense in economies where the governments had small deficits. The IMF also ordered countries to introduce market discipline by removing government controls without much consideration to the consequences. For instance, the IMF ordered the Indonesian government to eliminate price controls on fuel and food. The sudden removal of government controls resulted in hikes in the prices of food and fuel. These sudden price increases sparked riots in Indonesia, which led to the downfall of the thirty-three year rein of President Suharto. This price rise also triggered vicious attacks on the Chinese community in Indonesia.

At this point East Asian countries want to explore options for overcoming their economic crisis other than those recommended by the IMF. Many East Asian leaders recognize the need to restructure business, but they believe other approaches to their problems will provide them with better security for their future. They suspect that U.S. demands to open their economies and adopt America's brand of freewheeling capitalism to be self-serving. Some East Asian states have taken steps to stabilize their economies in ways that the IMF has yet to consider. The Malaysian government, for instance, has implemented capital controls to prevent speculators from manipulating its economy. The Hong Kong government, long recognized for a laissez-faire approach to economics, has intervened in its stock market to foil attempts by speculators to make money at the city's expense. To the consternation of the U.S., China has also reversed course on liberalization in placing greater restrictions on foreign currency.

East Asian countries have also shown some interest in establishing an Asian monetary fund. Japan originally proposed the idea in 1997, when the East Asian crisis had first emerged. At the time the U.S. opposed the idea. The U.S. argued that an Asian monetary fund would undermine the authority of the IMF. The IMF lends emergency funds to countries in trouble provided their governments adhere to IMF programs for stabilizing their economies. The IMF places these conditions on governments because it believes the money will otherwise be wasted. If countries fail to stabilize their economies, IMF money will not be sufficient for them to recover from their problems. No country likes to follow IMF's austerity programs, but the Fund has seemed to help recipient countries overcome their problems after they have undergone painful periods of adjustment. If a rival fund from the Asian region offered loans, countries would have little incentive to follow IMF conditions.

The U.S. was successful in squashing the idea of an Asian monetary fund in 1997, but many East Asian countries have had second thoughts. The IMF program has disappointed a number of countries. Some countries also question U.S. motives for rejecting the formation of an Asian fund. They suspect the economic argument that the U.S. makes only disguises the strategic reasons underlying American objections. The U.S. likes to control international affairs, and the emergence of an Asian fund might threaten U.S. hegemony. The U.S. has little real concern for East Asia at its time of crisis. The U.S. really considers the East Asian crisis to be an excellent opportunity for American companies to buy land and capital in East Asia at a fraction of their real worth.

Written by Prof. Greg Tilton, January 1999

Glossary



Developed: refers to the level of economic development. 'Developed' typically refers to countries that are highly industrialized.

Developing: refers to the level of economic development. 'Developing' denotes an economy that is in the process of industrializing.

Exports: goods and services produced in one economy that are sold to foreign economies.

Free Trade: the ultimate goal of several international economic organizations. 'Free trade' exists when imports and exports can cross country lines without encountering any restrictions.

Gross Domestic Product (GDP): the value of all goods and services produced within a country's borders (by domestic and foreign-owned operations) in a given year.

GDP per capita: the GDP of a country/economy divided by the total number of citizens.

Gross National Product (GNP): the value of all goods and services produced by companies owned by a given country's citizens regardless of where the companies are located throughout the world.

Highly Developed: refers to an economy's level of economic development. Generally used in reference to economies that are highly industrialized and technologically advanced.

Imports: goods and services produced in foreign economies that are purchased by a given economy.

Macroeconomic: refers to the systems level of an economy.

Multilateral: including several actors.

Newly Industrialized Country (NIC): an economy that has recently created industrial capacities. Typically 'NIC' is to describe Singapore, Hong Kong, Taiwan, and South Korea.

Non-Tariff Barriers (NTBs): impediments to trade other than taxes. Opinions vary on exactly what actions constitute NTBs. Some NTBs might include environmental restrictions or specific labor standards.

Protectionism: the act of attempting to help domestic producers by creating regulations (such as tariffs and NTBs) against foreign competitors.

Reciprocity: a mutual exchange of trade advantages/disadvantages. For example, two economies might agree to drop import restrictions on the other's electronic components.

Tariffs: a tax on goods traded across international borders, generally on imports.

World Trade Organization: formerly called the General Agreement on Tariffs and Trade (GATT). This international organization includes countries throughout the world, and its goal is to encourage free trade.