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Speaking Engagement: The Economic Strategy Institute's Seventh Annual International Trade & Policy Conference "Whither Globalism: A World in Crises?

Wednesday, May 6, 1998
8:00 - 9:00 a.m.
Regency Hotel on Capital Hill
Room - Ballroom A

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B. SUBJECT	DATE
B. SUBJECT: SPEAKING ENGAGEMENT: THE ECONOMIC STRATEGY INSTITUTE'S SEVENTH ANNUAL INTERNATIONAL TRADE & POLICY CONFERENCE "WHITHER GLOBALISM: A WORLD IN CRISES?"// JDW TO DELIVER MAJOR ADDRESS // (B) (N) <<NOTE: JDW'S PARTICIPATION WILL BE DONE BY 8:30 A.M. - JDW CAN STAY TILL 9 A.M. IF HE CHOOSES OR DEPART AT 8:30 A.M.>> // VENUE: HYATT REGENCY HOTEL ON CAPITOL HILL // ROOM - CONFERENCE ROOM, REGENCY A // PROGRAM: 8:00 TO 8:20 A.M. - JDW TO DELIVER SPEECH // 8:20 TO 8:30 P.M. - Q & A // JDW'S SPEECH: "GLOBAL FINANCE AND GLOBAL PLAYERS: GETTING THE INTERNATIONAL SYSTEM BACK ON TRACK" // CONTACT: STEVEN CLEMONS @ 202-289-1288 EXT. 224 (FOR MR. CLYDE PRESTOWITZ, PRESIDENT OF THE ECONOMIC STRATEGY INSTITUTE @ 202-289-1288) // INTERAL: MERRELL @ 39516 // NOTE: (4/8) CA ADVISED THAT IT WILL START AT 8:00 A.M. // CLYDE PRESTOWITZ, PRESIDENT OF THE ECONOMIC STRATEGY INSTITUTE WILL GET BACK TO US WITH TIME AND PLACE - EITHER A.M. OR P.M. - NO LUNCH SLOT / 289-1288 // STAFF TO ACCOMPANY - SWITCHED FROM MMB TO J. FURMAN (4/30) - CFMD. VERBALLY // (B) J. FURMAN // DUE: FRIDAY, MAY 1 // EXC: CA // LFG (4/8) // ALI (4/20) Brief includes: --- Talking Points, JDW's Notes --- Additional Talking Points - Background Information --- Agenda --- Information Brochure: Whither Globalism: A World in Crisis, May 5 & 6, 1998	**DATE:** 05/06/98

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Whither Globalism: A World in Crisis?

A National Policy Conference in Commemoration of the 50th Anniversary of the GATT

The 1998 Economic Strategy Institute International Economic and Trade Policy Conference

May 5 and 6, 1998

Hyatt Regency on Capitol Hill
Washington, D.C.

Tuesday, May 5, 1998

7:30	**Coffee/Registration**		**Ticonderoga Wall/Regency A Hallway**
7:50-8:00	**Welcoming Remarks** Clyde V. Prestowitz, Jr., President, Economic Strategy Institute		**Regency A**
8:00-8:45	**The European Agenda:** **Preparing for the Next Millennium** His Excellency Jacques Santer, President, European Union		**Regency A**
8:45-9:15	**It's Technology, Stupid:** **Shrinking the World and Building the New Global Economy** The Honorable Albert Gore, Jr., Vice President of the United States *Live via ProShare from Beijing:* Andrew S. Grove, Chairman and CEO, Intel Corporation		**Regency A**
9:15-10:30	**Getting There:** **The Role of Government, The Role of Industry** C. Michael Armstrong, Chairman and CEO, AT&T The Honorable Ira Magaziner, Special Adviser to the President		**Regency A**
Panelists:	Fred M. Briggs, Chief Engineering Officer, MCI Communications Corporation Michael Dertouzos, Director, Massachusetts Institute of Technology, Laboratory for Computer Science Francis Lorentz, former Chairman and CEO, Groupe Bull; and Advisor for Electronic Commerce to the French Government James C. Morgan, Chairman and CEO, Applied Materials George Scalise, President, Semiconductor Industry Association		
Moderator:	Regis McKenna, Author, *Real Time: Preparing for the Age of the Never Satisfied Customer*		
10:30-11:00	**The Road to Shangri-La:** **Is Technology Creating a New Economy?**		**Regency A**
Speaker:	Steve Case, Chairman and CEO, America Online, Inc.		
11:00-11:45	**Is the U.S. Economy Really Different?: A Debate** Stephen Roach, Chief Economist, Morgan Stanley Edward Yardeni, Chief Economist, Deutsche Morgan Grenfell, Inc.		**Regency A**
Moderator:	Lawrence Chimerine, Senior Vice President and Chief Economist, Economic Strategy Institute		
11:00-11:45	**PRESS EVENT** **Release of the new ESI book: *Antidumping and the U.S. Economy*** Greg Mastel, Vice President and Director of Studies, Economic Strategy Institute		**Bunker Hill Room**
11:45-12:15	**Pre-Lunch Address** **Picking Up the Pace: America's Trade Strategy** The Honorable Charlene Barshefsky, United States Trade Representative		**Regency A**
12:15	**Luncheon**		**Regency B,C,D**
12:45-1:30	**The New Internationalism:** **The Nexus Between American National Interests and Globalism**		**Regency B,C,D**
Speaker:	Rep. Richard Gephardt, Democratic Leader, U.S. House of Representatives (D-MO)		

ERRATA

Because of an early publication date, the following changes are not reflected in the conference agenda.

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The new moderator for the Europe panel is:

Gerald Baker, Washington Bureau Chief, *The Financial Times*
(replacing Clyde Prestowitz)

1:30-2:45	**Making Globalization Work for America**	**Regency A**
	John Sweeney, President, AFL-CIO	
Panelists:	William Greider, Author, *One World Ready or Not?*	
	Jerry Jasinowski, President, National Association of Manufacturers	
	William Niskanen, Chairman, CATO Institute	
	Sylvia Ostry, Distinguished Research Fellow, Centre for International Studies, University of Toronto	
	William Wolman, Chief Economist, *Business Week* and Chief Economist, CNBC	
Moderator:	David E. Sanger, Economics Correspondent, *The New York Times*	
2:45-3:45	**Trust-Busting and the Global Economy**	**Regency A**
	The Honorable Joel Klein, Assistant Attorney General, Antitrust Division, Department of Justice	
	Live via ProShare from Brussels	
	The Honorable Alexander Schaub, Director General, DG IV/Competition, European Commission	
Moderator:	Thomas R. Howell, Partner, Dewey Ballantine	
3:45-4:45	**Found Money: What to Do with the Budget Surplus**	**Regency A**
	Franklin Raines, Director, Office of Management and Budget	
	The Honorable J. Robert Kerrey, U.S. Senate (D-NE)	
Panelists:	James Glassman, DeWitt Wallace Fellow, American Enterprise Institute	
	Robert D. Reischauer, Senior Fellow, Brookings Institution	
Moderator:	Clay Chandler, Economics Writer, *The Washington Post*	
4:45-6:15	**Concurrent Sessions**	
	Session A:	**Regency A**
	Global Warming: Keeping the Planet Cool and the Economy Hot	
	The Honorable David M. McIntosh, Chairman, Subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs, House Committee on Government Reform and Oversight (R-IN)	
	The Honorable Stuart Eizenstat, Under Secretary of State for Economics	
Panelists:	Christopher Flavin, Senior Vice President, Worldwatch Institute	
	Joseph Goffman, Global & Regional Air Program, Environmental Defense Fund	
	Bill O'Keefe, Executive Vice President, American Petroleum Institute and Chairman Emeritus, Global Climate Coalition	
	Martin B. Zimmerman, Executive Director, Government Relations and Corporate Economics, Ford Motor Company	
Moderator:	Jodie Allen, Washington Bureau Chief, *Slate*	
	Session B:	**Columbia A-B**
	Making Too Much, Buying Too Little: Managing in a World of Overcapacity	
	J.T. Battenberg, President, Delphi Automotive Group	
	Papken der Torossian, President & CEO, Silicon Valley Group	
	Richard J. Elkus, Jr., Chairman, Voyan Technology	
	Daniel J. Meyer, Chairman, President and CEO, Cincinnati Milacron	
	Daniel Roos, Associate Dean, Engineering Systems, Massachusetts Institute of Technology	
Moderator:	Sheilah Kast, Host, PBS's "This Week in Business"	
	Cocktail Commentary:	**Hall of States**
6:15	**Fast Track? Slow Track? Where Next on the Trade Agenda?**	
	The Honorable John Breaux, Co-Chairman, Centrist Coalition, U.S. Senate (D-LA)	
6:45	**What Business Needs to Deliver the Goods**	
	Frederick W. Smith, Chairman and CEO, Federal Express Corporation	

7:15-9:30 Dinner Program — **Regency Ballroom**

Big Players, New Rules, and the Great Game:
Visions of Global Economic Expansion into the Next Century
American Prosperity & Trade:
The Next Agenda
The Honorable William V. Roth, Jr., Chairman, Committee on Finance, U.S. Senate (R-DE)

Lessons Learned: Where Does Japan Go Next?
The Honorable Koichi Kato, Secretary General, Liberal Democratic Party of Japan

Wednesday, May 6, 1998

7:30 Coffee/Registration — Ticonderoga Wall/Regency A Hallway

8:00-8:30 **Global Finance and Global Players:** — Regency A
Getting the International System Back on Track
The Honorable James Wolfensohn, President, The World Bank

8:30-8:50 **Silicon Strategies:Comments from the Entrepreneurial Front**
John Doerr, Partner, Kleiner Perkins and Chairman, Technology Network

9:00-10:15 **The Hot Zone:** — Regency A
Causes and Cures of the Asian Contagion
Kenneth Courtis, Chief Strategist, Deutsche Bank Asia Capital Markets
David Dodwell, Director, Jardine Fleming Group
Rudiger Dornbusch, Professor of Economics and International Management, Massachusetts Institute of Technology
Gilbert B. Kaplan, Senior Partner, Hale and Dorr LLP
Bijan B. Aghevli, Deputy Director, Asia and Pacific Department, International Monetary Fund
John D. Shilling, Secretary, Operational Policy Committee, The World Bank
Jusuf Wanandi, Director, Center for Strategic and International Studies, Jakarta
Moderator: Thomas L. Friedman, Columnist, *The New York Times*

10:15-11:15 **Does Japan Need Another Miracle?** — Regency A
The Honorable Tom Foley, U.S. Ambassador to Japan
The Honorable Yukihiko Ikeda, Former Foreign Minister of Japan, Liberal Democratic Party
Panelistts: Shinji Fukukawa, Chairman, Dentsu Institute for Human Studies and former Vice Minister, Ministry of International Trade and Industry (MITI)
Glen Fukushima, President, American Chamber of Commerce in Japan
The Honorable Yuriko Koike, House of Representatives, National Diet, Liberal Party
Richard Koo, Chief Economist, Nomura Research Institute
Akio Mikuni, President, Mikuni & Co.
Nobuo Tanaka, Director, General Affairs Division, Ministry of International Trade and Industry
Moderator: Michael Zielenziger, Tokyo Bureau Chief, Knight Ridder Newspapers

11:15-12:15 **Keeping the Peace:** — Regency A
Balancing Security and Economic Issues
The Honorable John Hamre, Deputy Secretary of Defense
The Honorable Jeff Bingaman, Ranking Member, Strategic Forces Subcommittee, Senate Armed Services Committee (D-NM)
Panelists: Ted Galen Carpenter, Vice President for Defense & Foreign Policy Studies, CATO Institute
James Fallows, Editor, *U.S. News & World Report*
Robert E. Lighthizer, Partner, Skadden Arps Slate Meagher & Flom and former Deputy United States Trade Representative
The Honorable Brent Scowcroft, President, Scowcroft Group and former National Security Advisor
The Hon. Robert Zoellick, former Under Secretary of State and Professor, U.S. Naval Academy
Moderator: Bruce Stokes, Senior Fellow, Council on Foreign Relations

12:15	**Pre-Lunch Address** The Honorable Joseph I. Lieberman, U.S. Senate, (D-CT)	**Regency B, C, D**
12:45-1:15	**On Call 24-7:** **America's Role in Holding the Global System Together** The Honorable Lawrence Summers, Deputy Secretary of the Treasury	**Regency B, C, D**
1:30-2:30	**China: Playing a Cool Hand at a Hot Table** His Excellency Li Zhaoxing, Ambassador of People's Republic of China to the United States	**Regency A**
2:45-4:15	**Latin America: New Tigers or Sick Cubs?**	**Regency A**
Introduction:	The Honorable Thomas P. McLarty, Counselor to the President and Special Envoy for the Americas His Excellency Herminio Blanco Mendoza, Minister of Trade, Republic of Mexico His Excellency Ambassador Jose Botafogo Gonçalves, Minister of State for Trade, Industry, and Tourism, Fedrative Republic of Brazil	
Panelists:	Jeff Faux, President, Economic Policy Institute Peter Hakim, President, Inter-American Dialogue The Honorable Jim Kolbe, U.S. House of Representatives (R-AZ) The Honorable Sander Levin, U.S. House of Representatives (D-MI)	
Moderator:	Alan Murray, Washington Bureau Chief, *The Wall Street Journal*	
4:30-6:15	**Europe: Will the Dinosaur Become a Dynamo?** Peder Bonde, Chairman of the Board, Investor International AB Dana G. Mead, Chairman & CEO, Tenneco Corporation	**Regency A**
Panelists:	Bruno D'Avanzo, Chief Operating Officer, GTS UK Limited Klaus Friedrich, Chief Economist, Dresdner Bank Richard Medley, Managing Partner, Medley Global Advisors and former Managing Director, Soros Manangement Fund Massimo Russo, Special Advisor to the Managing Director for European Monetary Affairs, International Monetary Fund Amb. Jean-Daniel Tordjman, Ambassador at Large & Special Representative of France for International Relations	
Moderator:	Clyde V. Prestowitz, Jr. President, Economic Strategy Institute	
6:15-7:00	**Reception Honoring Washington's Ambassadorial Corps** *Sponsored by Texas Instruments* **Cocktail Commentary**	**Regency Foyer**
7:00	**Dinner Seating**	**Regency Ballroom**
7:45-9:30	**America's Stake in the Asia Pacific**	**Regency Ballroom**
Speaker:	His Excellency Lee Hsien Loong, Deputy Prime Minister, Republic of Singapore	
Commentary:	The Honorable Amo Houghton, U.S. House of Representatives (R-NY) The Honorable Robert T. Matsui, U.S. House of Representatives (D-CA)	
9:30	**Closing Comments** Clyde V. Prestowitz, Jr., President Economic Strategy Institute	

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Thank yous:

In addition to the ESI staff, this conference has been the work of many people. We would like to thank the following people, without whom this conference would not have happened.

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Speaker Biographies

Whither Globalism: A World in Crisis?

May 5-6, 1998

Welcoming Remarks / Closing Comments

CLYDE V. PRESTOWITZ, JR. is founder and president of the Economic Strategy Institute (ESI), a private, non-profit, non-partisan research center specializing in issues of globalization and competitiveness. Mr. Prestowitz was formerly senior associate at the Carnegie Endowment and a fellow at the Woodrow Wilson International Center for Scholars, where he wrote his influential book on the U.S.-Japan conflict, *Trading Places*. From 1981 until 1986, he was successively deputy assistant secretary of commerce, acting assistant secretary of commerce, and counselor to the secretary of commerce. In the latter position, he was the principal policy advisor to the secretary on all aspects of economic relationships between the United States and Japan. Before joining the Commerce Department, Mr. Prestowitz had an extensive international business career. He worked with Scott Paper Company in Philadelphia and Europe, with Egon Zehnder in Europe and Japan, and directed marketing operations in Europe, Asia, and Latin America for the American Can Company. He also served as a Foreign Service Officer in Washington, D.C. and Holland and as a reporter for the *Honolulu Star Bulletin*. Mr. Prestowitz received a B.A. with honors from Swarthmore College, an M.A. in East-West policies and economics from the East-West Center of the University of Hawaii, and an M.B.A. degree from the Wharton Graduate School of Business. He also studied at Keio University in Tokyo.

The European Agenda: Preparing for the Next Millennium

HIS EXCELENCY JACQUES SANTER is president of the European Commission. Prior to assuming this post, he was a governor of the European Bank for Reconstruction and Development from 1991 to 1994, a governor of the International Monetary Fund from 1989 to 1994, chairman of the European People's Party from 1987 to 1990, and a governor of the World Bank from 1984 to 1989. For six months during both 1985 and 1991, he held the presidency of the European Council. From 1989 to 1994, President Santer served as prime minister, minister of state, minister for the Treasury, and minister for cultural affairs in the EU, while from 1984 to 1989 he was prime minister, minister of state, and minister of finance. He was minister of finance, labour and social security from 1979 to 1984, and was a member of the European Parliament from 1975 to 1979. Prior to that, he was an alderman of the City of Luxembourg, a member of Parliament, and held various posts in the Christian Social Party. President Santer began his career as a barrister at the Court of Appeal in Luxembourg. He holds a Doctor of Law and Certificate of the Institut d'Etudes Politiques, Paris.

It's Technology Stupid:
Shrinking the World and Building the New Global Economy

ALBERT GORE was inaugurated as the 45th vice president of the United States on January 20, 1993. President Clinton chose then-Senator Gore to be his running mate on July 9, 1992. He was formally nominated as the Democratic nominee for vice president one week later at the Democratic National Convention in New York. Vice President Gore's Congressional career began when he was elected to the U.S. House of Representatives in 1976, where he served eight years representing the then 4th District of Tennessee. He was elected to the U.S. Senate in 1984 and was re-elected in 1990, becoming the first candidate in modern history - Republican or Democrat - to win all 95 of Tennessee's counties. In 1988, he was a candidate for the Democratic nomination for president. An Army veteran who served in Vietnam, Vice President Gore worked as an investigative reporter with *The Tennessean* prior to beginning his political career. He received a degree in government from Harvard College, and attended Vanderbilt University Divinity School and Vanderbilt Law School.

ANDREW GROVE is chairman and chief executive officer of Intel Corporation. Dr. Grove graduated from the City College of New York in 1960 with a bachelor of chemical engineering degree and received his Ph.D. from the University of California, Berkeley in 1963. Upon graduation, he joined the Research and Development Laboratory of Fairchild Semiconductor and became assistant director of Research and Development in 1967. In July 1968, Dr. Grove participated in the founding of Intel Corporation. In 1979, he was named its president, and in 1987 he was named chief executive officer. He has written over 40 technical papers and holds several patents on semiconductor devices and technology. For six years he taught a graduate course in semiconductor device physics at the University of California, Berkeley and is currently a lecturer at the Stanford Graduate School of Business. In addition to writing frequently for newspapers and magazines, Dr. Grove is the author of several books including *Physics and Technology of Semiconductor Devices, High Output Management, One-on-One With Andy Grove,* and *Only the Paranoid Survive: How to Exploit the Crisis Points that Change Every Company and Career*. He has been elected a fellow of the IEEE and a member of the National Academy of Engineering, and in 1994 was elected a fellow of the Academy of Arts and Sciences. Dr. Grove is the recipient of numerous awards and honors including the 1987 Engineering Leadership Recognition Award from the IEEE, the 1993 AEA Medal of Achievement, and the 1995 Heinz Family Foundation Award for Technology and the Economy.

Getting There: The Role of Government, The Role of Industry

C. MICHAEL ARMSTRONG was elected chairman of the board and chief executive officer of AT&T, effective November 1, 1997. Mr. Armstrong came to AT&T from Hughes Electronics, where he had been chairman and CEO for six years. Prior to Hughes, he spent more than three decades with IBM. Beginning there as a systems engineer, he rose through the ranks to become senior vice president and chairman of the board of IBM World Trade Corporation. Mr. Armstrong serves as chairman of the President's Export Council, and is a member of the Council on Foreign Relations, the

National Security Telecommunications Advisory Committee and the Defense Policy Advisory Committee on Trade. He is a member of the board of directors of Travelers Corporation, and the supervisory board of the Thyssen-Bornemisza Group. Mr. Armstrong earned a B.S. degree in business and economics from Miami University of Ohio in 1961, and completed the advanced management curriculum at the Dartmouth Institute in 1961.

IRA C. MAGAZINER is a senior advisor to the president for policy development. He has been chairing a joint National Economic Council/National Security Council initiative to increase U.S. exports, and recently completed a document outlining a U.S. government strategy for promoting the development of global electronic commerce on the internet. Before chairing the export effort, he managed the development of the president's healthcare reform initiative. Prior to his White House appointment, Mr. Magaziner built two corporate-strategy consulting firms: SJS Inc., founded in 1990, and Telesis, founded in 1979. As a corporate strategist for the Boston Consulting Group, he directed policy analysis for major corporations from 1973 to 1979. Mr. Magaziner has served on many commissions and boards. He has been chairman of the Commission on the Skills of the American Workforce, from 1988 to 1991, and has served on the Advisory Committee on Technology Policy of the Competitiveness Council. The co-author of three books, Mr. Magaziner has written many articles about business strategy, international economics, and technology policy. He has an undergraduate degree from Brown University and he attended Balliol College, Oxford as a Rhodes Scholar.

FRED M. BRIGGS is chief engineering officer of MCI Communications Corporation, where he is responsible for overseeing the following areas: internet, network architecture, product architecture, technology support, wireless engineering and global and strategic engineering. Additionally, he serves on the Concert Board of Directors. Mr. Briggs most recently served as senior vice president of network services, engineering. Prior to that, he was senior vice president of network operations. Mr. Briggs has also served as vice president of data services engineering, and vice president of data services for MCI International, where he was responsible for the international messaging and private line services. In 1983 he joined MCI to work in the company's international network planning organization. Prior to joining MCI, Mr. Briggs held operations management and engineering positions with AT&T and Mobil Chemical Company. He served in the U.S. Navy as an engineering officer on board nuclear submarines. Mr. Briggs holds a bachelor of science in electrical engineering from Oregon State University.

MICHAEL DERTOUZOS has headed MIT's Laboratory for Computer Science since 1974. With several start-up companies and technology patents to his credit, Mr. Dertouzos advises the leaders of Fortune 500 companies, and of the U.S. and European governments, on the future direction of information technology and its impact. He is the author of *What Will Be*, which previews the inventions that will usher in a Third Revolution to rival the Agricultural and Industrial Revolutions.

FRANCIS LORENTZ is chairman of EPFR (Etablissement Public de Financement et de Restructuration) and a professor at Paris-Dauphine University (strategic management - information technologies). Since last October, he has served as an advisor for electronic commerce to the French Minister of Economy, Finances and Industry. He has recently completed a report on actions that could be pursued by the French government in this field. From 1992 to 1994, he served as President of RATP (the public transportation system of Paris). Prior to that, Mr. Lorentz was chairman and CEO of Groupe Bull, deputy managing director of Lyonnaise des Eaux, and spent ten years in the French Government's Treasury and Ministry of Industry. He is a graduate of HEC and ENA.

JAMES C. MORGAN has been chief executive officer of Applied Materials, Inc. since 1977 and chairman of the board since 1987. Prior to joining Applied Materials as president in 1976, he was a senior partner with WestVen Management, a private venture capital partnership affiliated with the Bank of America Corporation. Prior to WestVen, he was with Textron, a leading diversified manufacturing company. From 1996 to 1997, Mr. Morgan served on the Commission on United States-Pacific Trade and Investment Policy, and from 1988 to 1992, he served on the National Advisory Committee on Semiconductors. He is also the recipient of the 1996 National Medal of Technology for his industry leadership and work with Applied Materials. Mr. Morgan is a member of the board of directors of Cisco Systems, Inc., serves as a board member of the Congressional Economic Leadership Institute (CELI) and the National Center for APEC, and is a member of the Council on Competitiveness, and the Chairman's Circle of the Pacific Basin Economic Council. He is a director emeritus and past president of Semiconductor Equipment and Materials International, the first global trade association. From 1986 to 1991 he was co-chairman of the Japan-Western U.S. Association, and was named the 1995 "International Citizen of the Year" by the World Forum of Silicon Valley. Co-author of the book *Cracking the Japanese Market: Strategies for Success in the New Global Economy,* Mr. Morgan earned a B.S.M.E. and an M.B.A. from Cornell University.

GEORGE M. SCALISE is president of the Semiconductor Industry Association (SIA). He oversees vice presidents and directors in the departments of International Trade & Government Affairs, Technology, Information Systems & Finance, Environmental Safety & Health and Communications and works directly with SIA's Board of Directors. He has a long career in the semiconductor industry and participated in SIA activities for years prior to being named president in June 1997. Mr. Scalise came to the SIA from Apple Computer, where he served as executive vice president of operations. In 1996, he also served as chief administrative officer. Prior to this, he held executive management positions at National Semiconductor, Maxtor Corporation, Advanced Micro Devices, Fairchild Semiconductor and Motorola Semiconductor. He is a founding member of the Semiconductor Research Corporation (SRC), and served on its board of directors from 1983 to 1987 and as chairman from 1984 to 1987. Mr. Scalise has sat on numerous boards and advisory committees, including SEMATECH and Cadence Design Systems, and chaired the Secretary of Energy's Advisory Board, U.S. Department of Energy, from 1993 to 1995. Mr. Scalise holds a B.S. in mechanical engineering from Purdue University.

REGIS McKENNA is chairman of The McKenna Group, a management and marketing consulting firm specializing in the application of information and telecommunications technologies to business strategies. He is also a venture partner of the venture capital firm Kleiner Perkins Caufield & Byers. Over the past twenty five years, Mr. McKenna has participated in the launch of several important technological innovations including the first microprocessor (Intel Corporation), the first personal computer (Apple Computer), the first recombinant DNA genetically engineered product (Genetech, Inc.), and the first retail computer store (The Byte Shop). He is the author of four books including *The Regis Touch* (1985), *Who's Afraid of Big Blue* (1989), *Relationship Marketing* (1992), and *Real Time: Preparing for the Age of the Never Satisfied Customer* (1997). Before forming the McKenna Group in 1970 , Mr. McKenna worked for National Semiconductor and General Micro Electronics. He sits on the advisory boards of Stanford Graduate School of Business, Berkeley Round Table on International Economy, and the Economic Strategy Institute, among others. Mr. McKenna attended Saint Vincent College and Duquesne University.

The Road to Shangri-La: Is Technology Creating a New Economy?

STEPHEN M. CASE is chairman and chief executive officer of America Online, Inc. A co-founder of the company, Mr. Case has supervised AOL's rise from 250 employees and $30 million in revenue five years ago, to 7500 employees and nearly $1.7 billion in revenue today. His goal is to create a new medium that will someday be as ubiquitous as radio or TV and, ultimately, more useful. Mr. Case believes we are moving toward a more connected society where online users form new habits to communicate with others, find new information and entertain themselves and their families. As the medium continues to grow, Mr. Case has stated his intention to sustain AOL's role as a pacesetter in defining the industry's global vision, while at the same time confronting the challenging issues that are emerging as the industry grows, including child online safety. Mr. Case holds a degree in political science from Williams College.

Is the U.S. Economy Really Different?: A Debate

STEPHEN S. ROACH is a managing director of Morgan Stanley Dean Witter & Co. and is chief economist and director of global economic analysis. In this role, he oversees the firm's highly-ranked team of economists, located in New York, London, Paris, Tokyo, and Hong Kong. His published work has covered a broad range of topics, with recent emphasis on assessing the macro impacts of trends in productivity, information technology, inflation, and service sector restructuring. Dr. Roach is widely quoted in the financial press and his work has appeared in academic journals, books, congressional testimony, and on the op-ed pages of *The Wall Street Journal, The New York Times, The Washington Post,* and *The Financial Times*. He recently served as a member of a National Academy of Sciences committee that completed a study examining the impact of information technology on the performance of the U.S. service sector. Prior to joining Morgan Stanley in 1982, he was a vice president of the Morgan Guaranty Trust Company. Before this, Dr. Roach served on the research staff of the Federal Reserve Board in Washington, D.C. for six years, where he supervised the preparation of the official Federal Reserve projections of the U.S. economy. He has also been a research fellow at the Brookings Institution in Washington. Dr. Roach holds a Ph.D. in economics from New York University and a bachelor's degree in economics from the University of Wisconsin.

EDWARD YARDENI is the chief economist and a managing director of Deutsche Morgan Grenfell (North America) in New York City, where he publishes weekly economic analyses that explore issues and trends in the economy and financial markets. He previously served as chief economist for C.J. Lawrence, Prudential Securities, and E.F. Hutton. Dr. Yardeni taught at Columbia University's Graduate School of Business, and served as an economist with the Federal Reserve Bank of New York. He also held positions at the Federal Reserve Board of Governors and the U.S. Treasury Department in Washington, D.C. Dr. Yardeni has published articles in *The Wall Street Journal, The New York Times,* and *Barron's;* writes monthly for *Nikkei Financial Daily* and *Nikkei Business;* and has appeared on numerous television and radio shows, including *Wall Street Week* and CNN's *Moneyline.* Dr. Yardeni holds a Ph.D. and a masters degree from Yale University and an undergraduate degree from Cornell University.

LAWRENCE CHIMERINE is senior vice president and chief economist at the Economic Strategy Institute (ESI). Prior to joining ESI in 1990, Dr. Chimerine headed two major economic forecasting firms. From 1987 to 1990, he was chairman and chief executive officer of the WEFA Group and, from 1979 to 1987, he was chairman, chief executive and chief economist of Chase Econometrics. From 1965 to 1979, Dr. Chimerine was the manager of U.S. economic research and forecasting for IBM Corporation. He has served on numerous government advisory boards, including the House Task Force on International Competitiveness and the Economic Policy Board of the Department of Commerce, and he frequently testifies on economic issues before congressional committees. Dr. Chimerine's commentary on the U.S. economy regularly appears in *The New York Times, The Washington Post, USA Today,* and other leading newspapers, and he makes regular appearances on CNN, CNBC, and "The Nightly Business Report." He is also a member of the *CNBC/USA Today* Board of Economists. Dr. Chimerine received a B.S. in mathematics from Brooklyn College and a Ph.D. in economics from Brown University.

PRESS EVENT: Release of the new ESI book:
Antidumping Laws and the U.S. Economy

GREG MASTEL is vice president and director of studies at the Economic Strategy Institute (ESI). Before joining ESI in October 1994, he held various posts with the U.S. Senate, including chief international trade advisor to the chairman of the Senate Finance Committee's International Trade Subcommittee. During his eight years with the Senate, Dr. Mastel was an official congressional advisor to U.S. trade negotiators, working on such issues as the extension of fast-track trade negotiating authority, the Uruguay Round trade agreement, MFN status for China, Super 301, and the NAFTA. A member of several economic and trade advisory boards, he has appeared on CNN, NBC, ABC, *The Nightly Business Report,* and *The News Hour with Jim Lehrer.* Dr. Mastel frequently writes and provides analysis for *The Washington Post, The Los Angeles Times, The Washington Times, The Wall Street Journal* and many other publications. He is the author of several books, including *American Trade Laws After the Uruguay Round* (1996) and *The Rise of the Chinese Economy* (1997). Dr. Mastel's most recent book, *Anti-Dumping Laws and the U.S. Economy*, was published in 1998 by M.E. Sharpe. He holds a Ph.D. in international economics and an M.B.A.

Picking Up the Pace: America's Trade Strategy

AMB. CHARLENE BARSHEFSKY was appointed United States trade representative with the rank of ambassador extraordinary and plenipotentiary on March 17, 1997 by President Bill Clinton. She had served as acting U.S. trade representative since April 1996 and, prior to that, served for three years as principal deputy U.S. trade representative. She has played a pivotal role in developing the administration's trade policy objectives and has been instrumental in achieving multiple trade agreements and investment treaties. Her responsibilities include a range of regional areas, including Asia-Pacific and Latin America, functional areas such as intellectual property and investment worldwide, as well as sectoral areas. Amb. Barshefsky chairs the sub-cabinet Trade Policy Review Group, which assists in the formulation of administration trade policy. Prior to her appointment as USTR, Amb. Barshefsky was a partner in the Washington, D.C. law firm Steptoe & Johnson, where she specialized in trade law and policy for eighteen years, and co-chaired the firm's International Practice Group. During her tenure at the office of the U.S. trade representative and at Steptoe & Johnson, Amb. Barshefsky has published, lectured, and testified extensively on U.S. and international trade policy and law. She graduated from the University of Wisconsin in 1972 and, in 1975, from the Columbus School of Law at Catholic University.

The New Internationalism: The Nexus Between American National Interests and Globalism

REP. RICHARD A. GEPHARDT has represented Missouri's Third Congressional District since 1977. He is the minority leader of the U.S. House of Representatives and the founding chairman of the Democratic Leadership Council. He was a candidate for president in 1988. His career in Congress has also included service as House majority leader and as chairman of the House Democratic Caucus, as well as membership on the House Ways and Means and Budget Committees. He began his career in public service as a precinct captain in St. Louis and was twice elected alderman. Rep. Gephardt received an undergraduate degree in speech from Northwestern University, where he served as student body president, and a law degree from the University of Michigan.

Making Globalization Work for America

JOHN J. SWEENEY was elected president of the AFL-CIO at the federation's biennial convention in October 1995. At that time, he was serving his fourth four-year term as president of the Service Employees International Union (SEIU), which had grown from 625,000 to 1.1 million members during his leadership. He had also been vice president of the AFL-CIO and chair of the executive council committees on health care, organizing, and field services. Mr. Sweeney joined SEIU local 32B in 1961, and was elected president in 1980. He began his career in the labor movement with the

International Ladies' Garment Workers, which merged with the Amalgamated Textile Workers Union to form UNITE. He is the author of the book *America Needs a Raise, Fighting for Economic Security and Social Justice,* published in 1996; co-author of *Solutions for the New Work Force;* and co-editor of the UNA-USA Economic Policy Council's *Family and Work: Bridging the Gap.* Mr. Sweeney graduated from Iona College with a degree in economics.

WILLIAM GREIDER has been a reporter for more than 35 years for U.S. newspapers, magazines, and television. He is the author of several best-selling books on politics and economics, including *The Education of David Stockman and Other Americans* (1982); *Secrets of the Temple: How the Federal Reserve Runs the Country* (1987); *Who Will Tell the People: The Betrayal of American Democracy* (1992); and his most recent work *One World, Ready of Not: The Manic Logic of Global Capitalism* (1997). Mr. Grieder is a former assistant managing editor for national news at *The Washington Post,* where he worked for nearly 15 years as a national correspondent, editor and columnist. He has served as the on-air correspondent for six documentaries for *Frontline,* the documentary film series of the Public Broadcasting System. One of these, "Return to Beirut" won the Emmy in 1985. In recent years, Mr. Greider has written a regular column on politics and national affairs for *Rolling Stone.*

JERRY JASINOWSKI is president and chief executive officer of the National Association of Manufacturers. He assumed this post in January 1990, after serving as the association's executive vice president and chief economist for ten years. The NAM is the largest and oldest broad-based industrial trade association in the United States. A one-time factory worker, Mr. Jasinowski joined the U.S. Air Force as an intelligence officer serving in the Far East in the mid-1960's. He went on to become assistant professor of economics at the U.S. Air Force Academy. In the early 1970's, Mr. Jasinowski came to Washington to manage research and legislative activities for the Joint Economic Committee of Congress. In 1976, he served as director of the Carter administration's economic transition team for the departments of Treasury, Commerce, Labor, the Council of Economic Advisors and the Federal Reserve. He later was appointed assistant secretary for policy at the U.S. Department of Commerce. Mr. Jasinowski received his B.A. in economics from Indiana University, his master's degree in economics from Columbia University, and is a graduate of the Harvard Business School's Advanced Management Program.

WILLIAM A. NISKANEN is chairman of the Cato Institute in Washington, D.C. He has served in this position since stepping down as acting chairman of President Reagan's Council of Economic Advisers in 1985. Mr. Niskanen has written and lectured on a wide range of issues, including budget policy, defense, education, government organization, health care, international trade, productivity, regulation and taxes and he is the author of *Reaganomics: An Insider's Account of the Policies and the People,* which was named one the 10 best books of 1988 by *Business Week.* He has worked for Ford Motor Company as director of economics, for the Office of Management and Budget, and as a defense analyst for the Pentagon, the Rand Corporation, and the Institute for Defense Analyses. Mr. Niskanen was also a founder of the National Tax Limitation Committee.

He received an A.B. from Harvard College and an M.A. and a Ph.D. in economics from the University of Chicago.

SYLVIA OSTRY is a Distinguished Research Fellow at the Centre for International Studies, University of Toronto. From 1990 to 1997, she was chairman of the Centre for International Studies, University of Toronto. Prior to joining the Centre, Dr. Ostry was Volvo Distinguished Visiting Fellow at the Council on Foreign Relations, and from 1979 to 1983, was head of the Economics and Statistics Department of the OECD in Paris. She also has had a distinguished career in the Canadian government, where she was chief statistician; deputy minister of consumer and corporate affairs; chairman of the Economic Council of Canada; deputy minister of international trade; ambassador for multilateral trade negotiations; and the prime minister's personal representative for the Economic Summit. Among her most recent publications are *Who's on First? The Post-Cold War Trading System* (1997); *The Halifax G-7 Summit: Issues on the Table* (1995); *Rethinking Federalism: Citizens, Markets and Governments in a Changing World* (1995); and *Technonationalism and Technoglobalism: Conflict and Cooperation* (1995). Dr. Ostry is a member of the Group of Thirty, Washington and a founding member of the Pacific Council on International Policy. In 1990, she was made a companion of the Order of Canada, the highest award in the Canadian national system of honors, and was admitted as a Fellow of the Royal Society of Canada in 1991. She has a Ph.D. in economics from McGill University and Cambridge.

WILLIAM WOLMAN, *Business Week*'s chief economist, supervises the magazine's extensive coverage of economics and finance. He also serves as the chief economist for CNBC. Since joining *Business Week* as a member of its economics staff in 1960, he has held many senior positions, including economics editor, senior editor of the economics department, and deputy editor. In addition to his work at *Business Week*, Dr. Wolman was full-time executive director of the daily program, *Business Times* in 1983, and from 1971 to 1974, he forecast economic trends at Angus Research. From 1969 to 1971, Dr. Wolman was Citibank's vice-president in charge of economics publications. Among his awards for journalistic excellence are the 1984 Champion-Tuck Award for the special issue, "How to Cut the Deficit;" the 1981 National Magazine Award; the Deadline Club Award; The John Hancock Award for a *Business Week* special issue, "The Reindustrialization of America;" and the 1978 University of Missouri Journalism Award. Dr. Wolman is co-author of the books *The Beat Inflation Strategy*; *The Decline of U.S. Power*; and, most recently, *The Judas Economy: The Triumph of Capital and the Betrayal of Work*. He is a graduate of McGill University and holds a Ph.D. in economics from Stanford University.

DAVID E. SANGER is a Washington correspondent for *The New York Times*, and the leader of the economics unit in the newspaper's Washington bureau. Since taking up the post in October 1994, Mr. Sanger has covered the confluence of economic forces and foreign policy, and regularly delved into domestic economic and political issues as well. For six years prior to his posting in Washington, he served as a correspondent and then as bureau chief in the Tokyo bureau of the Times, the largest of the Times' news bureaus in Asia. While there, he covered a wide range of economic, political and security issues concerning Japan and Asia, and wrote extensively on how national wealth and competitiveness have come to redefine the relationships between the United States and its major allies. Mr. Sanger also covered the Korean Peninsula, and wrote many of the first stories about North Korea's secret nuclear weapons program. David Sanger joined the *New York Times* in 1982, and served as the paper's technology correspondent during the early days of personal computing. In 1986, he played a major role in the team that investigated the causes of the space shuttle Challenger disaster; the team won the 1987 Pulitzer Prize for national reporting. Mr. Sanger received an A.B. in government (magna cum laude) from Harvard College in 1982.

Trust-Busting and the Global Economy

HON. JOEL I. KLEIN was confirmed by the Senate on July 17, 1997 to be the assistant attorney general in charge of the Antitrust Division at the Department of Justice. Mr. Klein was appointed acting assistant attorney general on October 18, 1996 and previously served as the Antitrust Division's principal deputy (1995-1996). Before that, he was deputy counsel to President Clinton (1993-1995). Prior to joining the Clinton administration, Mr. Klein practiced law in Washington D.C. for twenty years, beginning as a law clerk to Chief Judge David Bazelon on the U.S. Court of Appeals for the D.C. Circuit (1973-1974) and then to Justice Lewis Powell on the United States Supreme Court. From 1975 to 1976, he worked for the Mental Health Law Project, where he litigated several important cases on behalf of mentally ill and mentally retarded persons. For the following five years, he was an associate and partner at Rogovin, Stern & Huge before co-founding Onek, Klein & Farr. Mr. Klein has also served as a visiting and an adjunct professor at the Georgetown University Law Center and has published several articles in both scholarly and popular journals. He is active in community service and has served as chairman of the board of the Green Door and treasurer of the World Federation of Mental Health. He received his undergraduate degree from Columbia College and his law degree from Harvard Law School, both magna cum laude.

ALEXANDER SCHAUB has been director general of the Directorate General for Competition of the European Commission since May 1995. He has held several important posts since joining the Commission in 1973. From 1990 to 1995, Dr. Schaub was deputy director general of the Directorate General for Internal Markets and Industrial Affairs, and then deputy director general the Directorate General for Industry. In 1989, he was a director for trade-related questions in the industrial sector, and special representative for textile negotiations in the Directorate General for External Relations and Trade Policy. From 1973 to 1985, Dr, Schaub served in a number of Commission cabinets. From 1985 to 1988, he was chief of staff for Mr. Willy De Clerq, dealing with external relations and trade policy. From 1981 to 1985, Dr. Schaub was deputy chief of staff for President Gaston Thorn, and from 1978 to 1981, deputy chief of staff with responsibility for political coordination; energy; and research, science and education. He was also named to the cabinets of Mr. Ralf Dahrendorf and Mr. Guido Brunner. Prior to joining the Commission, Dr. Schaub served in the German Federal Ministry of Economic Affairs, the German Air Force, and as a military attaché at the embassy of Germany in Washington. He studied law and economics at the Universities of Freiburg, Lausanne, Cologne and Bonn, and earned a doctorate from the University of Bonn.

THOMAS R. HOWELL is a partner in the International Trade Group at Dewey Ballantine. Prior to joining Dewey Ballantine in 1985, Mr. Howell was an attorney at the firm Verner, Lupfert, Bernhard & McPherson. Among the major trade cases and disputes he has worked on are Eastman Kodak Company's WTO action and Section 301 action concerning Japanese market barriers in consumer photographic film and paper; an investigation of international cartels in steel, in which Mr. Howell represented six U.S. producers in antidumping and countervailing duty actions; and the U.S.-Japan dispute in semiconductors. Mr. Howell is the author of three books, *Conflict Among Nations: Trade Policies in the 1990's* (1992), *Steel and the State: Government Intervention and Steel's Structural Crisis* (1988), and *The Microelectronics Race* (1988). His articles have also appeared in *Comparative Economic Studies*, the *Stanford Journal of International Law*, and the *Michigan Yearbook of International Studies*. Mr. Howell received his A.B. (cum laude) from Harvard College and his J.D. (cum laude) from Boston University School of Law.

Found Money: What to Do with the Budget Surplus

FRANKLIN D. RAINES is currently serving as director of the Office of Management and Budget. Prior to assuming this position, he was vice chairman of the Federal National Mortgage Association, better known as Fannie Mae. As vice chairman, he was in charge of Fannie Mae's legal, credit policy, finance, and corporate development functions. Before joining Fannie Mae, Mr. Raines was a general partner in municipal finance at the investment banking firm of Lazard Freres & Co. Before joining Lazard Freres & Co., he served from 1977 to 1979 as associate director for economics and government at OMB and assistant director of the White House domestic policy staff. Mr. Raines received a A.B. in government from Harvard College, and a J.D. from Harvard Law School. He also attended Magdalen College, Oxford University, as a Rhodes Scholar.

SEN. J. ROBERT KERREY is the senior senator from the state of Nebraska. He is the vice chairman of the Senate Select Committee on Intelligence, and is a member of the Senate Finance Committee and the Senate Agriculture Committee. He was recently elected co-chairman of the National Commission on Restructuring the Internal Revenue Service and currently is serving as chairman of the Democratic Senatorial Campaign Committee. Senator Kerrey was first elected to the Senate in 1988 and won reelection in 1994. Prior to this he had served as governor of the State of Nebraska from 1983 to 1987, a position he won despite having no political experience. Senator Kerrey is a self-made businessman who built a chain of successful restaurants and health clubs that now employee more than 900 people. He is a former member of the elite Navy SEAL Team and is a highly decorated Vietnam Veteran who won the Congressional Medal of Honor. Senator Kerrey is a 1966 graduate of the University of Nebraska at Lincoln.

JAMES GLASSMAN holds the DeWitt Wallace-Reader's Digest Chair in Communications in a Free Society at the American Enterprise Institute. In addition, he writes two columns a week for *The Washington Post* on financial and political topics, and hosts *TechnoPolitics*, a weekly Public Broadcasting System program on science and public policy. He is a regular columnist for *U.S. News and World Report* and for *IntellectualCapital.com*, as well as a commentator for *Nightly Business Report* on PBS. From 1988 to 1993, Mr. Glassman was editor and part-owner of *Roll Call*, served as president of the Atlantic Monthly Co. and executive vice president of *U.S. News & World Report* (simultaneously) from 1984 to 1986, and as publisher of *The New Republic* from 1981 to 1984. Mr. Glassman was the winner of the 1997 Norman B. True Award of the Tax Foundation for "service toward sound tax policy." He is a member of the board of trustees of the Reason Foundation and the board of incorporators of *Harvard Magazine*. Mr. Glassman is a 1969 graduate of Harvard College (A.B., cum laude), where he was the managing editor of the *Harvard Crimson*, the university daily.

ROBERT D. REISCHAUER is as senior fellow of economic studies at the Brookings Institution, a policy think tank in Washington D.C. He specializes in budget policy, health, poverty, state and local fiscal problems, welfare, medicare, and medicaid. Prior to re-joining Brookings -- he was previously a senior fellow from 1986 to 1989, and research associate from 1970 to 1975 – Dr. Reischauer was at the Congressional Budget Office and served as its director from 1989 to 1995. He was the senior vice president of the Urban Institute from 1981 to 1986. Dr. Reischauer has served on several boards of directors, including that of the Academy of Political Science; is on the editorial boards of *Public Budgeting and Finance* and *Public Administration Review*; and has received numerous honorary degrees and awards. His writings include *The Balanced Budget Amendment to the Constitution: Ensuring a Balanced and Informed Debate* (in progress), "Deficit Budgeting: The Federal Budget Process and Budget Reform" in the *Harvard Journal on Legislation* (1992), and "Fiscal Policy and the Economy" in *Personal Saving, Consumption, and Tax Policy* (1992). Dr. Reischauer holds an A.B. from Harvard College, and an M.I.A. and Ph.D. from Columbia University.

CLAY CHANDLER is chief economic correspondent for *The Washington Post*, where he writes about the ways in which policy decisions by the federal government influence the economy. Since joining the *Post* in 1993, he has written extensively about federal budget and tax matters, as well as a variety of other economic policy topics including social security, health care, global warming, trade, and international finance. In 1997, Mr. Chandler helped chronicle the battle between Congress and the White House over how to balance the federal budget. More recently, he has contributed to the *Post's* coverage of the Asian financial crisis, reporting from Washington, Tokyo, and Seoul. Before joining the *Post*, Mr. Chandler covered the Japanese economy as Tokyo correspondent for *The Wall Street Journal*. He was a doctoral candidate in political science at Harvard University and holds an undergraduate degree from Harvard College.

Global Warming: Keeping the Planet Cool and the Economy Hot

REP. DAVID M. McINTOSH was elected to the House of Representatives from Indiana's 2nd District in 1994. In this post, he serves as chairman of the Government Reform and Oversight subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs and sits on the Small Business Committee and the Education and

Workforce Committee. In 1994, he was elected by his freshmen Republican colleagues as a liaison from the 73-member class to the House GOP leadership; he retains that position as a liaison to the now-sophomore class. Prior to being elected to Congress, Rep. McIntosh held several positions in the Reagan and Bush administrations, including Vice President Dan Quayle's executive director on the Council on Competitiveness, Quayle's deputy legal counsel, liaison to President Reagan's Commission on Privatization, special assistant to President Reagan for domestic affairs, and special assistant to Attorney General Meese. He received his bachelor's degree from Yale in 1980, and his law degree from the University of Chicago in 1983.

AMB. STUART E. EIZENSTAT is under secretary of state for economics, business, and agricultural affairs. Prior to serving in this post, he was under secretary of commerce for international trade, where he was responsible for promoting U.S. exports, assisting American business efforts abroad, enforcing laws against unfair trade practices and developing trade policy. Concurrently, he served as special envoy for property claims in central and eastern Europe. From 1993 to 1996, Mr. Eizenstat was the U.S. representative to the European Union; at the conclusion of this service, he received the Foreign Affairs Award for Public Service from Secretary of State Warren Christopher, the highest award which can be given to a non-career ambassador. From 1981 to 1993, Mr. Eizenstat was a partner and vice chairman of the law firm Powell, Goldstein, Frazer & Murphy and also served as an adjunct lecturer at the John F. Kennedy School of Government at Harvard University, and as a guest scholar at the Brookings Institution. Prior to this, Mr. Eizenstat held several positions in the Carter administration, including assistant for domestic affairs and policy, executive director of the domestic policy staff, and the Carter-Mondale Transition Planning Group's director for Policy, Planning, and Analysis. Mr. Eizenstst has written extensively in leading newspapers, magazines, and legal publications, and co-edited a book, *The American Agenda*. He is an honors graduate in political science of the University of North Carolina at Chapel Hill and received his law degree from Harvard University in 1967.

CHRISTOPHER FLAVIN is senior vice president at the Worldwatch Institute, where he directs the Institute's research programs, and heads its climate and energy team, which analyzes energy resource, technology, and policy issues. In this position, he has testified before legislative committees in several countries and has served as a consultant on sustainable development to the United Nations Development Program. Mr. Flavin is active in international policy circles on climate change, new energy strategies, and sustainable economics and has participated in several historic international conferences, including the United Nations Conference on New and Renewable Sources of Energy in Nairobi in 1981, the Earth Summit in Rio de Janeiro in 1992, and the Third Conference of the Parties to the Framework Convention on Climate Change in Kyoto in 1997. He is the founder and sits on the board of the Washington-based Business Council for Sustainable Energy, is on the board of the American Wind Energy Association, and is a member of the Cosmos Club, the Climate Action Network, the Hydrogen Technical Advisory Panel, the International Solar Energy Society, and the National Wind Coordinating Committee. In addition to being a frequent commentator on radio and television, Mr. Flavin is the author of four books, including *Power Surge: Guide to the Coming Energy Revolution* and the annual *State of the World* book. Mr. Flavin is a cum laude graduate in economics and biology from Williams College in Massachusetts.

JOSEPH GOFFMAN is a senior attorney at the Environmental Defense Fund, where he specializes in the use of market-based mechanisms to address a wide range of air pollution problems. He is also a member of the board of directors of the Environmental Resources Trust, a not-for-profit organization founded with the help of EDF to create innovative market-based projects and transactions that yield environmental benefits. Mr. Goffman was a leading member of the EDF team that created the greenhouse gas emissions budget and trading proposal that was embraced as a critical element of the U.S. position in international negotiations on climate change, a position fundamentally incorporated in the Kyoto Protocol. In his first stint at EDF in the late 1980's, he co-authored the proposal that became President George Bush's plan for the use of emissions trading to reduce the pollutants that cause acid rain. As associate counsel to the Committee on Environment and Public Works of the U.S. Senate in 1989 and 1990, he was chiefly responsible for the development and drafting of Title IV of the Clean Air Act Amendments of 1990, which established the acid rain trading system. In 1991, Mr. Goffman spent a year as special assistant to the U.S. EPA overseeing the development and drafting of the proposed rules governing the trading of sulfur dioxide emissions under Title IV. Mr. Goffman received undergraduate and law degrees from Yale University.

WILLIAM F. O'KEEFE is executive vice president and chief operating officer of the American Petroleum Institute. He joined the Institute in 1974 and was elected an officer in 1980. The American Petroleum Institute represents approximately 400 companies involved in all aspects of oil and gas. As the Institute's chief operating officer, Mr. O'Keefe's responsibilities cover internal management functions, program planning and coordination, policy development, advocacy, regulatory response, and technical services related to exploration, production, transportation, refining and marketing of petroleum and products. Prior to joining API, Mr. O'Keefe was a member of the management staff of the Center for Naval Analyses, which was an affiliate of the University of Rochester. He serves on the Boards of the United States Energy Association; Global Climate Coalition; Lt. Joseph P. Kennedy Institute; and is a member of the University of Texas College of Natural Sciences Advisory Committee, Resources for the Future Advisory Council, Commission for the Future of Clemson University, the Federal City Council and the Economic Club of Washington. Mr. O'Keefe holds a B.S. in business and has done graduate work in business and economics.

MARTIN B. ZIMMERMAN is executive director, Governmental Relations and Corporate Economics for Ford Motor Company. Before joining Ford in 1987, he was a professor and chairman of the Business Economics Department at the University of Michigan's Graduate School of Business Administration. Dr. Zimmerman joined the University of Michigan faculty in 1983 and became chairman of business economics in 1985. He interrupted that assignment to serve one year as a senior economist on the President's Council of Economic Advisors from September 1985 to September 1986. From 1988 to 1992, Dr. Zimmerman served on the Advisory Council of the National Aeronautic and Space Administration. He is a member of Phi Beta Kappa, the National

Association of Business Economists, and serves on the Board of Trustees of the Committee for Economic Development, the Board of Visitors of the Nelson A. Rockefeller Center for the Social Sciences at Dartmouth College, and the Board of Directors of the Citizens Research Council of Michigan. He received a bachelor's degree summa cum laude from Dartmouth College and a doctorate degree in economics from Massachusetts Institute of Technology in 1975.

JODIE T. ALLEN is the Washington editor of *Slate Magazine*, Microsoft's new online magazine of politics and culture. Before joining *Slate*, she was editor of Outlook, the Sunday commentary section of *The Washington Post*. She has also been an editorial writer and business columnist with the *Post*. Previously, she held positions in government (including deputy assistant secretary of labor for policy, and policy analyst in the Departments of Defense and Health, Education, and Welfare) and in various private organizations (Chrysler Corporation, Mathematica, the Urban Institute, and the Brookings Institution). Her memberships include Phi Beta Kappa, the Council on Foreign Relations, and the National Academy of Public Administration. She also serves on the Board of Visitors of the University of Maryland Graduate School of Public Affairs. Her editorials on tax policy were nominated by *The Washington Post* for a Pulitzer Prize in 1982, and she was a finalist for the Gerald Loeb Award for business and financial commentary in 1989 and 1993. She received her B.A. from Vassar College.

Making Too Much, Buying Too Little: Managing in a World of Overcapacity

J.T. BATTENBERG III is president of Delphi Automotive Systems, one of the five automotive sectors of General Motors Corporation. He is also an executive vice president of General Motors and a member of the GM President's Council, which is responsible for setting the corporation's overall strategic direction. He began his career at GM as an engineering student at General Motors Institute, and has held a number of positions, including superintendent of industrial engineering, comptroller, production manager and plant manager. In addition, Mr. Battenberg has served as managing director of the GM Continental Division in Belgium and was general manager of GM's overseas truck operations in England. He also served on the Opel Supervisory Board. In 1986, he was appointed product manager for the former Buick-Oldsmobile-Cadillac Group's Flint Division. He later served as product manager, vice president, and as the vice president and group executive for the Buick-Oldsmobile-Cadillac Group. In 1992, he was named GM vice president and group executive of the former Automotive Components Group Worldwide. Two years later, Mr. Battenberg was elected a GM senior vice president and president of the ACG Worldwide. In July 1995, he was elected executive vice president of General Motors and president of Delphi Automotive Systems (formerly ACG Worldwide). Mr. Battenberg earned a bachelor's degree in industrial engineering from Kettering University (formerly GMI), an M.B.A. in operations research from Columbia University, and has completed the Advanced Management Program at Harvard University.

PAPKEN S. DER TOROSSIAN is chairman of the board and chief executive officer of the Silicon Valley Group, Inc. Mr. Der Torossian joined SVG as president in 1984, became CEO in 1986 and was appointed chairman of the board in 1991. A respected industry spokesperson, he has served on the executive and international committees for the American Electronics Association, and as chairman of the SEMI/SEMATECH board of directors. His over 30-year career is highlighted by three years with ECS Microsystems Inc. as president and CEO, and five years with Plantronics as president of the Santa Cruz Division and, earlier, vice president of its telephone products group. In addition, he spent four years at Spectra-Physics and held a variety of management positions during a 12-year tenure at Hewlett-Packard. He received a bachelor's degree in mechanical engineering from the Massachusetts Institute of Technology and a master's degree from Stanford University.

RICHARD J. ELKUS, JR. is a director of KLA-Tencor, and formerly vice chairman of the board of Tencor Instruments in Mountain View, California, a leading manufacturer of metrology and wafer inspection equipment for the semiconductor industry. Prior to the merger of Prometrix Corporation and Tencor in early 1994, Mr. Elkus was chairman and CEO of Prometrix, which he co-founded in 1983. He is also chairman of Voyan Technology and OnTrak System, Inc. Mr. Elkus spent ten years, in various positions, at Ampex Corporation, where he wrote the original product plan and headed the team that introduced the VCR to the world in 1970. He has also held top positions at Integrated Systems, Geometrics, Acacia Sales Corporation, Pacific Measurements, and Tomex Corporation. Mr. Elkus' professional affiliations include the advisory boards of the Economic Strategy Institute and the Center for Strategic and International Studies, the Engineering Advisory Board of the Georgia Institute of Technology, director of the American Electronics Association, member of Stanford's 20/20 Visionaries Program, and member of the Council on Competitiveness. Mr. Elkus received his B.A. from Stanford University and his M.B.A. from Dartmouth College's Tuck School of Business Administration.

DANIEL J. MEYER is chairman, president and chief executive officer of Cincinnati Milacron Inc. He was elected president and chief operating officer in 1987, chief executive officer in 1990, and chairman in 1991. He served as chief financial officer from 1977 to 1987, first as vice president of finance and then as executive vice president of finance and administration. He was elected a director in 1985. Mr. Meyer is a director of Star Banc Corp., the E.W. Scripps Company, and Hubbell Incorporated; and a member of the Cincinnati Business Committee and Purdue Research Foundation, Purdue University. He is a trustee and former Chairman of the Greater Cincinnati Chamber of Commerce, a trustee and former chairman of the Association for Manufacturing Technology (AMT), and a trustee and former chairman of the Cincinnati Museum Center Board of Directors, and a member of the Board of Trustees of the Manufacturers Alliance for Productivity and Innovation (MAPI). He is a member of both the Ohio Business Roundtable and the Ohio Science and Technology Council. Mr. Meyer holds a B.S. degree in electrical engineering from Purdue University and a master's degree in business administration from Indiana University.

DANIEL ROOS is professor of civil engineering, Japan Steel Industry Professor, and director of the Center for Technology, Policy and Industrial Development. The Center is responsible for coordinating interdisciplinary technology and policy activities at the Massachusetts Institute of Technology. Dr. Roos is also co-director of the International

Motor Vehicle Program (IMVP), a multi-year, multi-million dollar research program examining the motor vehicle industry from an international perspective. He is the co-author of *The Machine That Changed the World,* which describes the principle of lean production. Dr. Roos received the 1989 Frank M. Masters Transportation Engineering Award from the American Society of Civil Engineers. He was a member of the Commission on Industrial Productivity established by the president of MIT to assess the causes of apparent weakness in U.S. productivity and the implications for the competitiveness of U.S. industries. The Commission published its findings in the book *Made in America.* Dr. Roos has served in several other administrative positions at MIT including director of the Center for Transportation Studies, director of the Civil Engineering Systems Laboratory, and Head of the Transportation Systems Division of the Department of Civil Engineering. Dr. Roos is chairman of a committee of the Transportation Research Board and National Academy of Sciences to Assess Advanced Vehicle and Highway Technologies, and he is a member of the National Research Council Committee on Fuel Economy of Automobiles and Light Trucks as well as a member of the Executive Committee of IVHS America. He is the author of over 50 professional books and papers.

SHEILAH KAST is the host of *This Week in Business,* a weekly public television series that analyzes top stories from the world of business. The half-hour show is produced by WETA, Washington's public broadcasting station, in association with *Business Week* magazine. Before moving to public television, Ms. Kast worked as a correspondent for ABC News for fifteen years. She covered a wide range of beats, from the White House to Congress to the historic 1991 coup attempt in Moscow which signaled the end of the Soviet Empire. But her focus through those beats, and throughout most of her career, has been on the economy and the workplace. In the 1980s, Ms. Kast was a financial reporter for *The Washington Star,* where she covered the Federal Reserve Board, the Securities and Exchange Commission, other regulatory agencies, and energy and tax issues. Ms. Kast has also hosted a series about health and families, called *Only Human,* on the Learning Channel. She is a cum laude graduate of The Catholic University of America.

Fast Track? Slow Track? Where Next on the Trade Agenda

SEN. JOHN BREAUX has served as a senator from Louisiana since 1986. In this position, he is a member of the Senate Finance Committee, where he serves as the ranking Democrat of the Subcommittee on Social Security and Family Policy, and sits on the International Trade Subcommittee and the Taxation and IRS Oversight Subcommittee. He is also a member of the Special Committee on Aging and the Committee on Commerce, Science and Transportation. In 1993, he was elected chief deputy whip, a position he continues to hold in the 105th Congress. For the past several years, Senator Breaux has served as the leader of the Centrist Coalition of moderate Democrats and Republicans, where he has sought bipartisan agreements on a number of issues, including a balanced budget, welfare reform and health care reform. In January 1998, he was selected by the White House and congressional leaders to chair the National Bipartisan Commission on the Future of Medicare. Prior to being elected to the Senate, Senator Breaux spent 14 years in the House as a representative of Louisiana's

7th District. He is a graduate of Southwestern Louisiana University in Lafayette and the Louisiana State University School of Law in Baton Rouge.

What Business Needs to Deliver the Goods

FREDERICK W. SMITH is chairman, president, and chief executive officer of Federal Express Corporation, the world's largest express transportation company and the first winner of the prestigious Malcolm Baldridge National Quality Award in the service category. Before founding Federal Express, he served in the U.S. Marine Corps from 1966 to 1970, including a two-year tour of duty in Vietnam, and attained the rank of captain. Mr. Smith also serves as a director on the boards of various transport, industry and civic organizations. He is the chairman of the executive committee of the Air Transport Association and the chairman of the International Air Transport Association. In addition, Mr. Smith is a former director on the board of Holiday Inn, and has belonged to the boards of E.W. Scripps, Malone and Hyde, First Tennessee Bank, General Mills, and St. Jude's Children's Hospital. He holds an undergraduate degree from Yale University.

Big Players, New Rules, and the Great Game:
Visions of Global Economic Expansion into the Next Century

American Prosperity & Trade: The Next Agenda

SEN. WILLIAM V. ROTH is currently serving his fifth term as a senator from Delaware, where he sits on the Committee on Finance. Prior to embarking on his career in the Senate, he served in the U.S. House of Representatives from 1967 to 1971, and was Delaware State Republican Chairman from 1961 to 1964. Senator Roth is President of the North Atlantic Assembly, a member of the Steering Committee of Asia-Pacific Parliamentarians Forum, and a member on international boards of the Center for Strategic and International Studies and Pan-Pacific Association. Senator Roth served in the U.S. Army from 1943 to 1946, where he rose from the rank of private to captain, receiving the Bronze Star in the process. He has a B.A. from the University of Oregon, an M.B.A. from Harvard Business School and a LL.B. from Harvard School of Law.

Lessons Learned: Where Does Japan Go Next?

HON. KOICHI KATO is secretary-general of the Liberal Democratic Party and a member of the House of Representatives of the National Diet of Japan. Since being elected to the House of Representatives for the first time in 1972, Mr. Kato has held a variety of positions within the Liberal Democratic Party, including director of the Agriculture and Forestry Division of the Policy Research Council (1980); director-general of the Election Bureau (1983); acting chairman of the Policy Research Council (1986); chairman of the Research Commission on Forestry of the Policy Research Council (1987); member of the Comprehensive Agriculture Policy Research Council (1989); acting secretary-general (1992); and chairman of the Policy Research Council (1994), before assuming his present post as secretary-general in 1995. He has also served in three cabinets as deputy chief cabinet secretary (Ohira Cabinet); director-general, Defense Agency, Minister of State (Nakasone Cabinet); and chief cabinet secretary, Minister of State (Miyazawa cabinet). In 1990, Mr. Kato was chairman of the Special Committee on United Nations Peace Cooperation for the House of Representatives. He graduated from Tokyo University's Department of Law in 1964.

Global Finance and Global Players: Getting the International System Back on Track

JAMES D. WOLFENSOHN, the World Bank Group's ninth President since 1946, established his career as an international investment banker with a parallel involvement in development issues and the global environment. Since becoming president on June 1, 1995, he has traveled widely in order to get first-hand experience of the challenges facing the World Bank, and its 181 member countries, in the post-cold war era. In 1996, together with the IMF, Mr. Wolfensohn initiated the multilateral debt relief proposal for the heavily indebted poor countries (HIPC) to ease their debt burden. Prior to joining the Bank, Mr. Wolfensohn was an international investment banker on Wall Street. His last position was as president and chief executive officer of James D. Wolfensohn Inc., his own investment firm set up in 1981 to advise major U.S. and international corporations. Before setting up his own company, Mr. Wolfensohn held a series of senior positions in finance. He was executive partner of Salomon Brothers in New York and head of its investment banking department. He was executive deputy chairman and managing director of Schroders Ltd. in London, president of J. Henry Schroders Banking Corporation in New York, and managing director, Darling & Co. of Australia. He is a long time supporter of the performing arts and a variety of charitable organizations, and sits on the board of a number of foundations and societies. Mr. Wolfensohn served as an Officer in the Royal Australian Air Force, and was a member of the 1956 Australian Olympic Fencing Team. A naturalized U.S. citizen, he hold B.A. and LL.B. degrees from the University of Sydney and an M.B.A. from the Harvard Graduate School of Business.

Silicon Strategies: Comments from the Entrepreneurial Front

JOHN DOERR is a partner at Kleiner Perkins Caufield & Byers, which he joined in 1980. In this role he has sponsored a series of investments in companies such as Compaq, Cypress, Intuit, Macromedia, Lotus, Netscape, Sun Microsystems and Symantec that have led to the creation of over 30,000 jobs. Mr. Doerr is the founding CEO of Silicon Compilers and serves on the Board of Directors of Intuit, Macromedia, Netscape, Platinum, Shiva, Sun Microsystems, Academic Systems, The Lightspan Partnership, and Amazon.com. Prior to joining KPCB, he was an engineer and marketing manager for microprocessors at Intel, where he was also the top-ranked systems salesperson. He holds several patents for computer memory devices he invented as a design engineer at Monsanto. Mr. Doerr earned bachelor's and master's degrees in electrical engineering from Rice University and an M.B.A. from the Harvard Graduate School of Business Administration.

The Hot Zone:
Causes and Cures of the Asian Contagion

KENNETH COURTIS is first vice president, chief strategist and chief economist for the Asian capital markets operations of Deutsche Bank, Europe's largest financial institution. He also serves as a lecturer at Keio and Tokyo universities, as well as a visiting professor at Stockholm School of Economics. Dr. Courtis holds the chair of the Planning Committee at Tokyo's School of International Studies and is an International Research Council member of Washington's Center for International and Strategic Studies, as well as an advisory board member of the Economic Strategy Institute. He is the author of *The Invisible Wealth of Japan*, a contributor to many of the world's leading journals, including *Harvard Business Review*, *Fortune*, *Business Week*, and *Euromoney*, and is a member of *Time* magazine's Board of Economists. Dr. Courtis is an honors graduate of Toronto's Glendon College; earned a M.A. at Sussex University in England; a M.B.A. at INSEAD (the European Institute of Business Administration at Fountainbleau); and a doctorate at the Institute of Economic and Political Studies in Paris.

DAVID DODWELL is director of the Jardine Fleming group, responsible for corporate communications and public affairs. He joined Jardine Fleming at the beginning of 1997, after three years working in Hong Kong as a private consultant and analyst of international trade and capital markets development for the Hong Kong Trade Development Council. Among Mr. Dodwell's responsibilities were examinations of different sectors of Hong Kong's economy, Hong Kong's rapidly developing economic relationships with mainland China, and analysis of regional capital market and investment trends. He spent nearly 18 years, mostly in Asia, as a journalist with the *Financial Times*, including five years as Hong Kong correspondent and a secondment with the China Daily. During his final years with the *Financial Times*, he worked as world trade editor, one of the paper's most senior positions. Mr. Dodwell is co-author of *The Hong Kong Advantage*, published in May 1997. He is a graduate of the University of East Anglia in the United Kingdom.

RUDIGER DORNBUSCH is Ford Professor of Economics and International Management at the Massachusetts Institute of Technology. He has served in this position since 1984. He was an assistant professor and professor of economics at MIT from 1975 to 1983; an associate professor of international economics in the Graduate School of Business at the University of Chicago from 1974 to 1975; an assistant professor in the Department of Economics at the University of Rochester from 1972 to 1974; and an assistant in economics at the Graduate Institute of International Studies in Geneva. Prof. Dornbusch is an associate editor of the *Quarterly Journal of Economics*, and sits on the Brookings Panel on Economic Activity, the Advisory Committee of the Institute for International Economics, and the Academic Advisory Panel of the Federal Reserve Bank of New York and Boston. He is the author and editor of several books, including *Financial Opening: Policy Lessons for Korea* (edited with Y.C. Park), *Reform Recovery and Growth* (edited with S. Edwards), and *Stabilization, Debt, and Reform: Policy Analysis for Developing Countries*. He has also contributed hundreds of papers, comments, and testimony to academic journals and news publications. Prof. Dornbusch holds a degree from the University of Geneva in Licence es Sciences Politiques, and a Ph.D. in economics from the University of Chicago.

GILBERT B. KAPLAN heads Hale and Dorr LLP's International Trade Practice, where he focuses on international trade cases and trade policy issues. From 1983 to 1988, Mr. Kaplan served in several senior positions in the United States government, including Acting Assistant Secretary for Import Administration and the Deputy Assistant Secretary for Import Administration of the U.S. Department of Commerce. While there, he was in charge of administering the U.S. antidumping and countervailing laws, and conducted over 500 cases in these areas. He supervised the President's Steel Program, the U.S.-Japan Agreement on Trade in Semiconductors, the U.S.-Canada agreement on lumber, and the machine tool program. Mr. Kaplan was also an active participant in the negotiation of the New General Agreement on Tariffs and Trade. He testified extensively on the issue before Congress, and worked with the Senate Finance Committee, the House Ways and Means Committee, and U.S. Trade Representative officials to craft the final language in the GATT Implementing Bill. Mr. Kaplan has written and lectured extensively on trade issues and has also served as co-chairman of the Committee on China of the American Bar Association's International Law Section. He graduated from Harvard College in 1974 and Harvard Law School in 1977.

BIJAN B. AGHEVLI is currently the senior deputy director in the Asia and Pacific Department at the International Monetary Fund. He was previously a senior advisor in the Research Department, and a research fellow at the London School of Economics. He has worked extensively on Asian countries, and has published papers in the general area of international and monetary economics.

JOHN D. SHILLING has been secretary to the Operations Committee and the Operational Policy Committee of the World Bank, working with the managing directors for operations. Since joining the World Bank in 1973, he has served in a variety of capacities. From 1993 to 1995, he was economic advisor in the office of the vice president for East Asia and the Pacific, where he concentrated on issues of capital flows into East Asia. Prior to that, Dr. Shilling headed divisions or served as a high level advisor responsible for many areas, including comparative analysis and projections, North Africa programs, financial advisory services, and Indonesia and the Pacific Islands. He initially worked in the Economic Analysis and Projections Department and later in the East Asia Department of the World Bank. Before joining the Bank, Dr. Shilling was economic advisor to the prime minister of Morocco and assistant professor of economics at Boston College. He has written and published many articles and major studies, most recently, *Managing Capital Flows in East Asia*. Dr. Shilling holds a B.A. from Stanford University and a Ph.D. from the Massachusetts Institute of Technology.

JUSUF WANANDI is chairman of the Supervisory Board, Centre for Strategic and International Studies (CSIS) in Jakarta. He is currently the president director of the publishing company of the *Jakarta Post*, the national English daily. Mr. Wanandi concurrently serves as chairman of the Indonesian National Committee for Pacific Economic Cooperation (INCPEC); vice chairman and advisor of the Gemala Group of Companies; board chairman of the Prasetiya Mulya Graduate School of Management;

and chairman of the Foundation of the Panca Bhakti University, Pontianak, West Kalimantan. He is also co-chair of the Indonesian Member Committee of CSCAP (Council for Security Cooperation in the Asia Pacific) and concurrently the co-chair of its Steering Committee. A lawyer by training, Mr. Wanandi was assistant professor of law at the University of Indonesia, Jakarta, and has served in various national and international organizations in the course of his career. He was appointed as secretary of the Indonesian Supreme Advisory Council; as secretary general of the national Education Council; and as four-term representative of the People's Consultative Assembly (MPR). He has written extensively in national and international magazines and newspapers. He has written several books and provided papers for various conferences on political developments and economic relations, especially in the Asia Pacific region.

THOMAS FRIEDMAN is the *New York Times'* foreign affairs columnist. Since joining the *New York Times* in 1981, Mr. Friedman has held a variety of positions as a correspondent including, general assignment financial reporter (1981-1982), Beirut Bureau chief (1982-1984), Israel Bureau chief (1984-1988), chief diplomatic correspondent (1989-1992), chief White House correspondent (1992-1993), and international economics correspondent (1994-1994). He assumed his present post as foreign affairs columnist in January of 1995. For his coverage of the Middle East, Mr. Friedman was awarded the 1983 Pulitzer Prize for international reporting (from Lebanon) and the 1988 Pulitzer Prize for international reporting (from Israel). In February of 1988, Mr. Friedman was awarded a Guggenheim Foundation Fellowship to write a book about his reflections on the Middle East. In June 1989, he published *From Beirut to Jerusalem* which was on the *New York Times* Bestseller List for 12 months and won the 1989 National Book Award for non-fiction and the 1989 Overseas Press Club Award for the Best Book on Foreign Policy. Mr. Friedman graduated summa cum laude from Brandeis University with a degree in Mediterranean studies, attended St. Anthony's College, Oxford University on a Marshall Scholarship, and received a master's degree in Modern Middle East studies from Oxford in 1978.

Does Japan Need Another Miracle?

AMB. THOMAS S. FOLEY was sworn in as the 25th U.S. Ambassador to Japan on November 6, 1997. Prior to taking up his diplomatic post, Amb. Foley served as the 49th Speaker of the House of Representatives from 1989 to 1994. He was elected to represent the state of Washington's Fifth Congressional District 15 times, and served his constituents for 30 years from January 1965 to December 1994. From 1987 until his election as Speaker on June 6, 1989 he was Majority Leader, and from 1981 to 1987, Amb. Foley served as Majority Whip. He is also a former chairman of both the House Democratic Caucus and the Democratic Study Group. Following his political career, Amb. Foley became a partner in the law firm of Akin, Gump, Strauss, Hauer & Field, where he specialized in international affairs. He formerly served on a number of private and public boards of directors, including the Japan-America Society of Washington and the Board of Advisors for the Center for Strategic and International Studies, and was a member of the Board of Governors of the East West Center and a member of the Council on Foreign Relations. Amb. Foley is an honorary Knight

Commander of the British Empire, has been awarded the Cross of the Order of Merit of the Federal Republic of Germany, is a member of the French Legion of Honor, and was awarded the Grand Cordon of the Order of the Rising Sun, Paulownia Flowers by the government of Japan. He holds undergraduate and law degrees from the University of Washington.

HON. YUKIHIKO IKEDA is currently serving his eighth term as a member of the House of Representatives of Japan, as a member of the Liberal Democratic Party from Hiroshima District Number Two. He has also held positions as minister for foreign affairs (1996-1997); director-general of the Defense Agency (1990-1991); deputy secretary-general of the Liberal Democratic Party (1990); director-general of the Management and Coordination Agency (1989); chairman of the Committee on Finance of the House of Representatives (1986-1989); chairman of the prime minister's office of Division of the Policy Research Council on the Liberal Democratic Party (1983-1986); and deputy chief cabinet secretary (1981-1983). Prior to entering electoral politics, Mr. Ikeda served as private secretary to the minister of finance (1974-1976); was seconded to the Ministry of Foreign Affairs (in which post, he spent four years as vice-consul at the Consulate-General in New York); and spent three years in the General Overall Coordination Division of the Minister's Secretariat of the Ministry of Finance. Mr. Ikeda is a graduate of the Faculty of Law of the University of Tokyo.

SHINJI FUKUKAWA is chairman and chief executive officer of Dentsu Institute of Human Studies. He has served in this capacity since November of 1994, when he concurrently joined Dentsu Inc. as an advisor. Prior to this appointment, he served as vice president and later vice chairman of Kobe Steel Ltd., as well as senior advisor to the Japan Industrial Policy Institute. Mr. Fukukawa had a lengthy career in Japan's Ministry of International Trade and Industry before leaving for the private sector. Among the positions he held were secretary to the prime minister, director of the Industrial Policy Bureau of MITI, before being appointed vice minister. He graduated from the Faculty of Law of the University of Tokyo.

GLEN S. FUKUSHIMA is president and chief executive officer of Arthur D. Little (Japan), and the 44th president of the American Chamber of Commerce in Japan (ACCJ). In addition, he has served as vice president of the Japan - United States Friendship Commission, a U.S. agency created in 1975 to promote U.S. - Japan cultural and educational dialogue and exchange, since 1994. Prior to joining Arthur D. Little, Mr. Fukushima worked for AT&T Japan Ltd. as vice president (1996-1998), regional director (1993-1996), and director (1990-1993). Mr. Fukushima also had a distinguished career in public service, first as director for Japanese affairs in the Office of the U.S. Trade Representative (1985-1988) and then as deputy assistant U.S. trade representative for Japan and China (1988-1990). Prior to this, he was a member of the law firm of Paul, Hastings, Janofsky & Walker. Mr. Fukushima received his undergraduate education at Stanford University, where he was a Keio-Stanford Exchange Scholar, his graduate education at the Harvard Graduate School of Arts and Sciences, Harvard Business School and Harvard Law School. From 1982-1983, he was a Fulbright Fellow at the University of Tokyo.

HON. YURIKO KOIKE is a member of the House of Representatives of the National Diet of Japan. In 1998, Ms. Koike participated in the formation of the Liberal Party, after having previously helped form the New Frontier Party and serving as its director of international affairs and assistant to the president. He was elected to the House of Representatives for the first time in 1993, and has served on a number of committees, including the Standing Committee on Finance, the Standing Committee on Commerce and Industry, and was appointed the chair of the Standing Committee on Science and Technology in 1997. Mr. Koike was awarded the Omega Prize by the World Economic Forum in 1993, and appointed a Global Leader of Tomorrow by the same organization in 1992. She is a former journalist who hosted a number of television shows in Japan, including *Money Information, Current Issues,* and *World Business Satellite,* and is the author of five books, among them *Arabic Conversation, Climbing the Pyramid in a Kimono,* and *Network for Women.* Ms. Koike holds a B.A. in sociology from Cairo University, attended the American University of Cairo, and was on the Faculty of Sociology at Kwansei Gakuin University.

RICHARD C. KOO is chief economist of Nomura Research Institute, the research arm of Nomura Securities, Tokyo, where he specializes in Japanese and U.S. financial market developments, with an emphasis on international capital flows and their policy implications. From 1991 to 1992, Mr. Koo, a U.S. citizen, was a member of the Economic Council, an advisory group to the Japanese prime minister, who appointed Koo the first foreigner ever to participate in the development of Japan's Five-Year Economic Plan. He was also a member of the Price Committee, which advises the Minister of Japan's Economic Planning Agency. Before joining Nomura, he was an economist at the Federal Reserve Bank of New York, in the International Research and Foreign Exchange Departments. Author of two best selling books in Japan, he writes regularly for many publications, including the *Los Angeles Times,* where he serves on the Board of Advisors. Mr. Koo holds a B.A. in political science and economics from the University of California at Berkeley, an M.A. in economics from the Johns Hopkins University, and he is a Ph.D. candidate at the johns Hopkins University.

AKIO MIKUNI is president and founder of Mikuni and Company, Ltd., which provides financial analyses on a professional basis to corporations. In 1983, Mikuni & Co., Ltd. became Japan's first independent, investor-supported bond-rating service. Prior to founding his company, Mr. Mikuni spent 22 years at Nomura Securities. He is currently a member of the Security Analysts Association of Japan, the Institute of Chartered Financial Analysts of the U.S.A., the New York Society of Securities Analysts, and the Japan Association of Corporate Executives. He graduated from the University of Tokyo's School of Law in 1963.

NOBUO TANAKA was appointed director of the General Affairs Division of the International Trade Policy Bureau of the Ministry of International Trade and Industry (MITI) in June 1997. He also was director of the Industrial Finance Division in the Industrial Policy Bureau from 1995 to1997. Since joining MITI in 1973, Mr. Tanaka has held a variety of positions. From 1989 to 1995 he was deputy director and then director for Science, Technology and Industry at the Organization for Economic Cooperation and Development (OECD) in Paris. Before coming to Paris, Mr. Tanaka spent four years with MITI in Tokyo as deputy director of the General Affairs Division of the Machinery and Information Industries Bureau; deputy director of the Personnel Division of the of the Minister's Secretariat; and as director of international nuclear energy affairs in the Natural Resources and Energy Agency. In 1982, Mr. Tanaka was commercial attaché at the Embassy of Japan in Washington, D.C., where he covered bilateral trade negotiations over semiconductors, automobiles, steel, machine tools, computers, and industrial policy. Mr. Tanaka has a degree in economics from the University of Tokyo and an M.B.A. from Case Western University.

MICHAEL ZIELENZIGER was named Tokyo bureau chief for Knight Ridder newspapers, America's second largest newspaper publishers, in January 1996 and took up his positing in April of the same year. From his post in Tokyo, Mr. Zielenziger travels frequently to China, South Korea, Thailand and other Asian nations to write about economic and social trends and business issues for the 9 million daily readers of Knight Ridder Newspapers. His articles are widely published in the United States as well as in newspapers in Asia and Europe. Previously, he served as the Pacific Rim correspondent for the *Mercury News*, the newspaper of America's Silicon Valley, probing the political, economic and social linkages between America's West Coast and the nations of Asia. His 1994 series on the rising influence of the Overseas Chinese in Asia, written in conjunction with former Tokyo bureau chief Lewis M. Simons, was a finalist for a 1995 Pulitzer Prize in International Reporting. Mr. Zielenziger worked for the *Mercury News* since 1984, when he opened the first national news bureau in Seattle. Previously, he worked at the *Chicago Sun Times* and the *Kansas City Star*. He has won numerous journalism awards and in 1990-91 was awarded a John S. Knight Fellowship to Stanford University, where he studied in the Asia-Pacific Center and at Stanford's Graduate School of Business. Mr. Zielenziger is a graduate of Princeton University.

Keeping the Peace:
Balancing Security and Economic Issues

JOHN J. HAMRE was sworn in as deputy secretary of defense on July 29, 1997. Prior to assuming this post, he was comptroller of the Department of Defense from 1993 to 1997. Before coming to the department, Dr. Hamre served for ten years as a professional staff member of the Senate Armed Services Committee, where he was responsible for oversight and evaluation of procurement, research and development programs, defense budget issues and relations with the Senate Appropriations Committee. From 1978 to 1984, Dr. Hamre served in the Congressional Budget Office, where he became Deputy Assistant Director for National Security and International Affairs. He received his Ph.D., with distinction, in 1978 from the School of Advanced International Studies, Johns Hopkins University. His studies focused in international politics, economics and U.S. foreign policy. In 1972, he received a B.A., with highest distinction, from Augustana College, Sioux Falls, South Dakota. The following year he studied as a Rockefeller Fellow at the Harvard Divinity School.

SEN. JEFF BINGAMAN represents New Mexico in the U.S. Senate. He was first elected to the Senate in 1982 and was reelected in 1988 and 1994. Senator Bingaman is the senior Democrat on the Subcommittee on Acquisition and Technology, of the Armed

Services Committee, and the Subcommittee on Energy Production and Regulation, of the Energy and Natural Resources Committee. He is also the senior Senate Democrat on the Joint Economic Committee. Senator Bingaman serves as the deputy Democratic whip and is a member of the Democratic Steering and Coordination Committee and the Democratic Technology and Communication Committee. Senator Bingaman was elected the attorney general of New Mexico in 1978, having served as the assistant attorney general nine years prior. He entered private practice in the early 1970's. Bingaman earned a B.A. in government from Harvard University and a degree in law from Stanford University.

TED GALEN CARPENTER is vice president for defense and foreign policy studies at the Cato Institute. Mr. Carpenter joined the Cato Institute as a foreign policy analyst in 1985 and became director of foreign policy studies in 1987. In this role he has written or edited studies in the Institute's Policy Analysis and Foreign Policy Briefing series that offer proposals for untangling America's Cold War alliances, the international war on drugs and the post-Cold War Crises in Bosnia, Haiti, and Somalia. His articles have appeared in *Foreign Affairs, Foreign Policy, The New York Times, The National Interest, The Wall Street Journal, USA Today* and *The Washington Post,* while his books include *The Captive Press: Foreign Policy Crises and the First Amendment* (1995), *Beyond NATO: Staying Out of Europe's Wars* (1994), and *A Search for Enemies: America's Alliances After the Cold War* (1992). Mr. Carpenter is a frequent guest expert on radio and television shows such as "NBC Nightly News," "CBS Evening News," CNN's "International Hour," "Crossfire," and "Larry King Live." Mr. Carpenter holds a B.A. and M.A. in U.S. history from the University of Wisconsin at Milwaukee and a Ph.D. in U.S. diplomatic history from the University of Texas.

JAMES FALLOWS has served as the editor of *U.S. News and World Report* since 1996. From 1980 to 1996, he was the Washington editor of *The Atlantic Monthly,* and contributed over 120 pieces to the magazine covering such divers topics as computer software, immigration, economics, Asia and the national defense. He remains a contributing editor to *The Atlantic Monthly.* After working as an editor for such publications as *The Washington Monthly* and *Texas Monthly,* Mr. Fallows served as President Jimmy Carter's chief speechwriter from 1977 to 1979. He is the author of several books, including: *National Defense* (which won the American Book Award); *More Like Us* (1989); *Looking at the Sun* (1994); and *Breaking the News: How the Media Undermine American Democracy* (1996). Mr. Fallows graduated Phi Beta Kappa from Harvard University and studied economics at Oxford University as a Rhodes Scholar.

AMB. ROBERT E. LIGHTHIZER is co-leader of Skadden, Arps, Slate, Meagher & Flom LLP's International Trade Department. He divides his time between traditional trade litigation, policy advice and legislative efforts. His clients include large U.S. corporations and coalitions in the heavy manufacturing, agricultural, high tech, and financial services fields. From 1983 until his return to private law practice in 1985, Amb. Lighthizer was the deputy United States trade representative, in which position he participated in negotiations on the GATT and the OECD. He also served as vice chairman of the Board of the Oversees Private Investment Corporation, the U.S. government agency whose purpose is to promote economic growth in developing countries through U.S. investment. Prior to his appointment as deputy USTR, Amb. Lighthizer was chief of staff of the United States Senate Committee on Finance under the chairmanship of Senator Robert Dole. He remains active in politics, and most recently served as national treasurer of the Republican Presidential Campaign. Amb. Lighthizer holds both a B.A. and a J.D. from Georgetown University.

BRENT SCOWCROFT is president of the Scowcroft Group and a former national security advisor. Gen. Scowcroft is one of the country's leading experts on national security, defense and foreign policy. He has served as national security advisor to both Presidents Ford and Bush. He graduated from West Point and served in the Air Force in a number of capacities including assistant air attaché in Belgrade, Yugoslavia, special assistant to the director of the Joint Chiefs of Staff and military assistant to President Nixon. From 1978 to 1987, Gen. Scowcroft remained actively engaged in national security affairs, serving on the President's Advisory Committee on Arms Control, the Commission on Strategic Forces and the President's Special Review Board, also known as the Tower Board. He earned a doctorate in international relations from Columbia University.

ROBERT B. ZOELLICK is currently a professor at the United States Naval Academy, and a former executive vice president for housing and law at Fannie Mae. During the Bush administration, Mr. Zoellick served as counselor to the Department of State, under secretary of state for economics, White House deputy chief of staff, and the president's "sherpa" for G-7 summits in 1991 and 1992. From 1985 to 1988, he served at the Department of the Treasury in various positions, including counselor to the treasury secretary and executive secretary of the department. Mr. Zoellick received the Distinguished Service Award, the State Department's highest honor; the Alexander Hamilton Award, the Treasury Department's highest honor; and the Knight Commanders Cross from the German government. He currently sits on the boards of Alliance Capital, Jones Intercable, Inc., and Said Holdings. The director of the Aspen Institute's Strategy Group on Foreign Policy, Mr. Zoellick is also a board member of several non-profit organizations, including the Council on Foreign Relations, the Congressional Institute, the German Marshall Fund of the U.S., and the European Institute. He is a member of several advisory committees and the D.C. Bar. A graduate of Swarthmore College, Mr. Zoellick holds a J.D. from Harvard Law School and an M.P.P. from Harvard's Kennedy School of Government.

BRUCE E. STOKES is senior fellow and director of trade programs at the Council on Foreign Relations. In conjunction with the Royal Institute of International Affairs in London, he is leading an assessment of the future of the multilateral trading system in the wake of the completion of the Uruguay Round of multilateral trade talks. He is also directing a Council project on the transatlantic economic agenda. Mr. Stokes is also a contributing editor for *The National Journal*, where he writes a bi-weekly column on trade issues, and he is a regular contributor to *Foresight* magazine in Japan. He is the author of numerous articles in *Foreign Affairs, Foreign Policy, International Affairs, Foresight* and elsewhere, and has edited several books, including *Trade Strategies for a New Era: Ensuring U.S. Leadership in a Global Economy* (1998, with Geza Feketekuty) and *Open for Business: Creating a Transatlantic Marketplace* (1996). Mr. Stokes is the author of several books, book chapters, and shorter studies, including *Helping Ourselves* (1981), *Japanese Investment in the United States: Its Causes and Consequences* (1989), and *The Inevitability of Managed Trade* (1990). In 1989, he won the John Hancock award for excellence in business and economics reporting, and in 1995 was chosen one of the "Best on Business" reporters by *Washingtonian* magazine. From 1987 to 1989, Mr. Stokes was a fellow of the U.S.-Japan leadership Program, and from 1986 to 1987, he was a member of the Presidential Commission on United States-Pacific Trade and Investment Policy. He is a member of the Council on Foreign Relations and sits on the Board of Directors of the Japan-America Society. Mr. Stokes is a graduate of the School of Foreign Service of Georgetown University, the School of Advanced International Studies at the Johns Hopkins University and attended Columbia University's Graduate School of Journalism.

Pre-Lunch Address

SEN. JOSEPH LIEBERMAN has served as a United States Senator from the state of Connecticut since 1988. In this position, he is a member of the Senate Armed Services Committee, as well as the Environment and Public Works, Governmental Affairs, and Small Business Committees. He has been named a deputy whip by the Senate minority leader, and, since 1995, has been the Chairman of the Democratic Leadership Council. Prior to joining the Senate, Senator Lieberman was a Connecticut State Senator from 1970 to 1980, the last six as majority leader, and the Connecticut attorney general from 1982 to 1988. He is the author of four books: *The Power Broker* (1966), *The Scorpion and the Tarantula* (1970), *The Legacy* (1981), and *Child Support in America* (1986). He received his bachelor's degree from Yale College in 1964 and his law degree from Yale Law School in 1967.

On Call 24-7:
America's Role in Holding the Global System Together

LAWRENCE H. SUMMERS became deputy secretary of the treasury in August 1995. His principal responsibilities are in the areas of international policy, domestic policy, tax policy, and the financial system. From 1993 to 1995, he was under secretary of the Treasury for international affairs. Dr. Summers served as vice president of development economics, and chief economist, at the World Bank from 1991 to 1993, designing country assistance strategies and supervising research, statistics, and external training programs. He also served as domestic policy economist on the President's Council of Economic Advisers from 1982 to 1983. Currently on leave from Harvard University, Dr. Summers is the author of *Understanding Unemployment*, the co-author of *Reform in Eastern Europe*, and the editor of the series *Tax Policy and the Economy*. He edited the *Quarterly Journal of Economics* from 1984 to 1990, and has contributed more than a hundred articles to professional economic journals. In 1993, Dr. Summers received the John Bates Clark Medal, given biennially to the outstanding American economist under 40. He is also the first social scientist to receive the National Science Foundation's Alan Waterman Award for outstanding scientific achievement. Dr. Summers received his S.B. degree from MIT and his Ph.D. from Harvard University.

China:
Playing a Cool Hand at a Hot Table

AMB. LI ZHAOXING is ambassador extraordinary and plenipotentiary of the People's Republic of China to the United States. Prior to this ambassadorship, he was vice minister of foreign affairs from 1995 to 1998. Amb. Li's long and distinguished diplomatic and ministerial career includes stints as permanent representative and ambassador plenipotentiary of the People's Republic of China to the United Nations from 1992 to 1995, as assistant minister of foreign affairs from 1990 to 1992, and as deputy director and director general of the Information Department of the Chinese Ministry of Foreign Affairs from 1985 to 1990. In addition to serving in the Kingdom of Lesotho as the Chinese Embassy's first secretary and in Kenya as staff member and attaché of the Embassy, he has also been staff member and deputy division chief of the Information Department of the Chinese Ministry of Foreign Affairs, and staff member of the Chinese People's Institute of Foreign Affairs. Mr. Lee was also a post-graduate student at the Beijing Institute of Foreign Languages.

Latin America:
New Tigers or Sick Cubs

THOMAS F. (MACK) MCLARTY served until recently in the White House as counselor to the president and special envoy for the Americas. He was also a member of President Clinton's cabinet and the National Economic Council. As special envoy, Mr. McLarty coordinated presidential visits and U.S. participation in the 1998 Summit of the America's in Santiago, Chile. He was White House chief of staff during the first two years of the Clinton administration and, in 1994, organized the Summit of the America's in Miami. Before coming to Washington, D.C., Mr. McLarty was chairman of the board and chief executive officer of Arkla, Inc. In addition, he was appointed by President Bush to both the National Petroleum Council and the National Council on Environmental Quality; was a member of the St. Louis Federal Reserve Bank; and helped transform his family business into one of the South's largest transportation companies. Elected to the Arkansas Legislature at the age of 23, Mr. McLarty served as state party chairman, on the Democratic National Committee, and as treasurer of the gubernatorial campaigns of Senator Prior and President Clinton. Mr. McLarty is a recipient of the NAACP's Fair Share Award and, along with his wife, the National Conference of Christian and Jews' Humanitarian Award and the American Gas Association's Public Service Award.

HON. HERMINIO BLANCO MENDOZA was appointed secretary of commerce and industrial development of Mexico by President Ernesto Zedillo in December 1994. He was under secretary for international trade negotiations from 1993 to 1994; chief negotiator for the North American Free Trade Agreement from 1990 to 1993; and under secretary for foreign trade at the Ministry of Commerce and Industrial Development from 1988 to 1990. He was senior advisor to the president from 1985 to 1988, and also served as the acting deputy coordinator for the Foreign Trade Commission of the PRI's Institute for Economic and Political Studies. In the Ministry of Finance, Secretary Blanco served as senior advisor from 1978 to 1980. He received his bachelor's degree in economics from the Monterrey Institute of Technology (ITESM), and his master's degree and Ph.D. in economics from the University of Chicago. From 1980 to 1985, he was professor of economics at Rice University in Houston, Texas, and researcher at Massachusetts Institute of Technology in the summer of 1981.

AMB. JOSE BOTAFOGO GONÇALVES is minister of state for industry, trade and tourism of the Federative Republic of Brazil. During the last 38 years, he has held numerous positions in the diplomatic arena related to economic and trade matters, serving in Moscow, Rome, Santiago de Chile, Paris, Bonn and Milan. From April 1995 to March 1998, he was under secretary general for integration, economic affairs and foreign trade of the Ministry of External Relation, where he was in charge of negotiations related to MERCOSUR, preparatory work on the Free Trade Area of the America's, the WTO and many other important economic forums. During the years 1985 to 1987, he was vice president for external relations of the World Bank in Washington. In 1979, he was appointed secretary for international economic and technical cooperation of the Presidency's Secretariat of Planning, and in 1977, was appointed head of the Trade Policy Division of the Ministry of External Relations.

JEFF FAUX is a founder and the president of the Economic Policy Institute, a Washington think tank recognized for its economic research and public education work. Mr. Faux has written books and articles on a wide variety of economic subjects, from international economics, monetary and fiscal policy to neighborhood community development. His latest book is *The Party's Not Over: A New Vision for the Democrats.* He has worked as an economist with the U.S. Office of Economic Opportunity and the U.S. Departments of State, Commerce, and Labor, and he received a presidential appointment to the National Advisory Council on Economic Opportunity. Educated at Queens College, George Washington University, and Harvard, Mr. Faux has lectured at universities in the United States, Canada, and overseas.

PETER HAKIM is president of the Inter-American Dialogue, a Washington-based center for policy analysis and exchange on Western Hemisphere relations. He authors a regular column for the *Christian Science Monitor* and serves on the External Advisory Committee of the Latin American Program at the World Bank. Previously, Mr. Hakim was a vice president of the Inter-American Foundation. He also managed the international resource and environmental program of the Ford Foundation, worked for the Foundation in South America, and held visiting lecturer appointments at Columbia University and the Massachusetts Institute of Technology. Principal author of *Development, Reform and Malnutrition in Chile* and coeditor of *Direct to the Poor: A Reader in Grassroots Development,* Mr. Hakim has also published numerous articles on political and economic issues in major newspapers and journals, and has appeared on many television and radio programs. He is a member of the Council on Foreign Relations, serves on the boards of the International Center for Research on Women and GALA Theater, and serves on several advisory committees. Mr. Hakim holds a B.A. in physics from Cornell University, an M.S. in physics from the University of Pennsylvania, and Master of Public and International Affairs at Princeton University's Woodrow Wilson School.

REP. JIM KOLBE is serving his seventh consecutive term in the United States House of Representatives. He represents the people of Arizona's Fifth Congressional District, which includes Tuscon and eastern Pima County as well as all of Cochise County and portions of Graham and Pinal Counties. Rep. Kolbe is a proponent of free trade recognized for his work in securing passage of the North American Free Trade Agreement, and his efforts to create and expand a Western Hemisphere free trade zone. He has served as co-chair of the Congressional delegation to the U.S./Mexico Interparliamentary Conference, the Congressional Study Group on Mexico, and the Task Force on U.S.-China Policy. He also serves as a member of the Council on the Americas, the World Economic Forum, the Pacific Council On International Policy, and the Congressional Study Group on Latin America. As a member of the House Appropriations Committee, Rep. Kolbe chairs the Subcommittee on Treasury, Postal Service, and General Government, and serves on the Subcommittee on the Interior and the Subcommittee on Commerce, Justice, State and Judiciary. He is a Navy veteran who holds a bachelor's degree in political science from Northwestern University and a master's in business administration from Stanford University.

REP. SANDER LEVIN has served in the House of Representatives as the Congressman from Michigan's 12th District since 1982. In this role he sits as the ranking Democrat on the Human Resources subcommittee, on the Social Security subcommittee, and on the House Ways and Means Committee, where he has worked to support free trade and open foreign markets to American made goods. Representative Levin spent close to a decade in the Michigan State Senate, ran for governor in 1970 and 1974, and served as assistant administrator in the Agency for International Development. He has a B.A. from the University of Chicago, and M.A. in international relations from Columbia University, and a law degree from Harvard University.

ALAN MURRAY has been Washington bureau chief for *The Wall Street Journal* since September 1993. Formerly a business and economics editor of the *Chattanooga Times*, Mr. Murray also worked for *Congressional Quarterly* and the *Japan Economic Journal* before joining the *WSJ* in 1983. He co-authored *Showdown at Gucci-Gulch: Lawmakers, Lobbyists and the Unlikely Triumph of Tax Reform*, which won the American Political Science Association's Carey McWilliams Award in 1988. Mr. Murray also received a citation for business reporting from the Overseas Press Club for "Strained Alliance," a series of five articles examining relations between the United States and Japan; a Gerald Loeb Award in the deadline/ beat writer category; and the John Hancock Award for excellence in business and financial journalism. Mr. Murray appears weekly on NBC *News at Sunrise* and is a regular panelist of PBS's *Washington Week in Review*. He is an occasional guest on NBC's *Meet the Press* and *Sunday Today* shows. Mr. Murray received a bachelor's degree from the University of North Carolina and a mater's degree from the London School of Economics.

Europe:
Will the Dinosaur Become a Dynamo?

PEDER BONDE is chairman of the board of Investor International AB and also serves as chairman of the board of the European-American Business Council. Prior to assuming the chairmanship in 1992, Count Bonde spent nearly a decade as executive vice chairman of AB Investor and Forvaltnings AB Providentia, Stockholm. From 1978 to 1982, he was president and chief executive of Banque Scandinave en Suisse (Commercial Bank), Geneva, Switzerland, a post he assumed after spending a year as special representative of Skandinaviska Enskllada Banken, Stocholm, in Zurich, Switzerland. Prior to this, Count Bonde spent over twenty years in various executive positions at Stockholms Enskillda Banken and Salen Invest AB. He began his career as a secretary, and subsequently judge, at Askims, Hisings and Savedals Tingsratt (district court), Goteborg. Count Bonde is a former captain in the Royal Horse Guard Reserve, and is lord in waiting at the Court of His Majesty the King of Sweden. He hold a master of laws from the University of Uppsala.

DANA G. MEAD is chairman of the board and chief executive officer of Tenneco, a $7 billion global manufacturing company. He joined the company in March 1992 as chief operating officer and a member of the board, was elected president one month later, and assumed his current positions in 1994. Before joining Tenneco, Mr. Mead was executive vice president and director of International Paper, where he had worked since 1978. From 1970 to 1974, he served in the White House, first as a White House Fellow and then as associate and deputy director of the Domestic Council. From 1957 to 1970, Mr. Mead served in the United States Army, with tours in West Germany and Vietnam. He is a past chairman, and currently serves as a director of the National Association of Manufacturers, as well as a number of other advisory boards. Mr. Mead received his bachelor of science in engineering from the U.S. Military Academy at West Point and a doctorate in political science and economics from the Massachusetts Institute of Technology.

BRUNO D'AVANZO joined Global TeleSystems Group, Inc. in August 1996 as executive vice president and chief operating officer. He previously served as executive vice president and chief operating officer at Intelsat, the world's largest telecommunications satellite operator. From 1991 to 1994, Dr. d'Avanzo held senior management positions at Olivetti Corporation, serving as vice president and general manager - Europe and vice president - US, Canada, and South America. He also spent 15 years with Digital Equipment Corporation (DEC), where he rose to become vice president - European sales and marketing. Dr. d'Avanzo holds a doctorate degree in electrical engineering from the University of Padua, and he studied as a Fulbright scholar at the University of Pennsylvania.

KLAUS FRIEDRICH has been general manager and chief economist of the Dresdner Bank Group since October 1992. His responsibilities at the bank cover economic analysis, country risk assessment, portfolio strategy, corporate finance projects, and corporate strategy. Before joining Dresdner Bank, Dr. Friedrich served as director for Europe at the Institute of International Finance, a Washington-based international banking organization primarily concerned with cross-border debt issues and country risk. Previously, he served as staff economist in the International Department of the Federal Reserve Board of Governors in Washington. Dr. Friedrich has published a book and numerous articles in the field of international economics and finance, and has taught economics at Pennsylvania States University. He holds a Ph.D. from Cornell University.

RICHARD MEDLEY is managing partner of Medley Global Advisors, an advisor to large American hedge funds and proprietary investment managers, and is associate director of Yale University's Center for International Finance. He was formerly a managing director of Soros Fund Management and Athena Global Investments and cofounder and president of Smick-Medley International. While in Washington in the 1970s and 1980s, Dr. Medley organized path-breaking congressional summits on the dollar, third world debt, and emerging markets. He was chief economist for the United States Senate Democratic leadership from 1981 to 1983, and chief economist for the House Committee on Banking, Finance and Urban Affairs from 1978 to 1980. Widely published in economic and political fields, Dr. Medley is also cofounder of *International Economy;* author of *The Politics of Inflation* and *Money, Credit and Politics in West Germany;* and frequent guest on network television news programs. He was also a Lester Crowne Distinguished Faculty Member at the Yale University School of Management from 1995 to 1996. Dr. Medley holds a B.A. in political science from Ohio State University, and Ph.D., M. Phil. and M.A. degrees in political science with an economic focus from Yale University.

MASSIMO RUSSO is currently special advisor to the managing director at the International Monetary Fund, a posting he assumed after spending a decade as director of the European I Department at the IMF. From 1983 to 1987 he was part of the Commission of the European Communities, as director general of the general Directorate for Economic and Financial Affairs and as a member of the Monetary Committee and the Economic Policy Committee. Prior to that, he served in various posts at the IMF, including deputy director of the Administration Department, as well as division chief and assistant director of the African Department. From 1972 to 1974, Mr. Russo was a senior economist in the Department of Economics at the OECD. He has a Diploma di Laurea in Giurisprudenza from the University of Rome, and a M.A. in economics from Yale University.

AMB. JEAN-DANIEL TORDJMAN is ambassador at large, special representative of France for international investment. In this position, he analyzes trends, assists foreign investors, and coordinates government activity concerning foreign investment. From 1985 to 1992, Amb. Tordjman was minister for economic and commercial affairs at the French Embassy in Washington, where he focused his efforts on developing French investments in, and trade relations with, the United States. Between 1982 and 1985, he was a deputy secretary of commerce, small business, and tourism. Previously, Amb. Tordjman had been in charge of international affairs for high technology industries at the Ministry of Research and Development from 1979 to 1982, and of industrial affairs and trade regulations from 1976 to 1979. He also served in Washington as commercial attaché from 1975 to 1976. During the early 1970's, Amb. Tordjman was responsible for European Economic Commission trade relations with the United States and Japan. He is a graduate of the Faculty of Law of Paris, the Institut des Sciences Politiques, and the Ecole Nationale d' Adminstration.

GERARD T. BAKER has been Washington Bureau Chief for the *Financial Times* since the beginning of 1998. He has been based in the U.S. for the last eighteen months, writing about U.S. policy and conditions. He has focused much of his time on international economics - a steady stream of columns, features and analysis of global issues, especially on the effects of the Asian financial crisis on the U.S. economy and the U.S. policy response to it. From 1994 to 1996 he was Tokyo correspondent for the paper, where he wrote extensively on the Japanese financial crisis and economic slump. From 1988 to 1994, Mr. Baker worked for the British Broadcasting Corporation, specializing in economic and financial news and current affairs reporting. He was the BBC's economics correspondent from 1992 to 1994 and previously a senior producer at *Panorama*, the award-winning international current affairs program. Before becoming a journalist, Mr. Baker worked as an economist for a commercial bank in the City of London and at the Bank of England. He has appeared frequently on U.S. and international television, radio and on-line programs, including CNBC, C-Span, the BBC and NPR. Mr. Baker graduated from Corpus Christi College, Oxford, with a first class honors degree in philosophy, politics and economics in 1983.

America's Stake in the Asia Pacific

HON. LEE HSIEN LOONG has been deputy prime minister of the Republic of Singapore since November 1990 and is currently first assistant secretary general of the People's Action Party. From 1990 to 1992, he also served as minister of trade and industry. Prior to his 1990 appointments, Mr. Lee held a number of positions in Singapore's government and military forces. He has been a member of Parliament for the Ang Mo Kio Group Representation Constituency since 1991. In 1986, Mr. Lee was elected to the Central Executive Committee of the People's Action Party and in 1985, he was appointed minister of state in the Ministry of Trade and Industry and minister of defense. Prior to entering politics, he was in the Singapore Armed Forces from 1971 to 1984, during which time he attained the rank of brigadier-general. Mr. Lee's last appointments were as chief of staff of the General Staff and director of Joint Operations and Planning Directorate. He was awarded the President's Scholarship in 1970 and the Singapore Armed Forces Scholarship in 1971 to study at the University of Cambridge, from which he graduated in 1974. Mr. Lee also received a master's degree in public administration from the John F. Kennedy School of Government at Harvard University.

REP. AMO HOUGHTON has served since 1987 as the representative of New York's 31st Congressional District. In this role he is the seventh-ranking Republican on the House Ways and Means Committee, and serves on two of its subcommittees, Trade and Health. He is also a member of the International Relations Committee and vice chairman of its Subcommittee on Africa. The posts reflect his long-standing interest and legislative leadership in those fields. Rep. Houghton is a founder of the Bipartisan Congressional Retreat and the John Quincy Adams Society, an issues forum which brings together moderate officeholders with top business leaders. He has previously served as president, board chairman and chief executive officer of Corning Inc., which the Houghton family founded in 1951. He serves on several boards of directors and was appointed vicechairman of the Grace Commission by President Reagan. Rep. Houghton is a graduate of both Harvard University and Harvard Business School.

REP. ROBERT T. MATSUI is in his 20th year as a congressman representing the Sacramento-region of California in the House of Representatives. He is a 16-year member of the House Ways and Means Committee, and became ranking minority member of the Trade Subcommittee in 1996, after having served as its acting chair in 1994. Rep. Matsui is a strong proponent of free trade who is a popular guest on new programs such as *Meet the Press, The CBS Evening News, The News Hour,* and CNN programs such as *Crossfire, The Capital Gang,* and *Inside Politics.* Among his numerous awards are being named "Congressional Advocate of the Year" in 1992 and 1994 by the Child Welfare League of America, serving as a 1993 honoree of the Children's Defense Fund, and being given a 'Lifetime Achievement Award" from the Anti-Defamation League. After founding his own Sacramento law practice in 1967, Rep. Matsui was elected to the Sacramento City Council in 1971. He won reelection in 1975 and became vice mayor of the city in 1977. Rep. Matsui is a graduate of the University of California, Berkeley and the Hastings College of Law.

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The Economic Strategy Institute (ESI) was founded in 1989 to develop and promote a comprehensive economic strategy for American economic leadership in the twenty-first century. Because American economic leadership will increasingly be defined in economic rather than military terms, and because the nation will face unprecedented challenges without the benefit of past superiority in industry, technology, and finance, this mission remains one of the highest importance.

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Whither Globalism: A World in Crisis?
May 5-6, 1998
Hyatt Regency on Capitol Hill
Washington, DC

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Meaghan	Abboud	The Boeing Company
Samson	Abdulla	University of Maryland
Donald	Abelson	Office of the U.S. Trade Rep.
Ashok	Agarwala	Eastman Kodak Company
Dr. Iqbal	Ahmad	Army Research Office
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David	Beecham	Lucent Technologies
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In the current aviation environment with international alliances and code-sharing agreements, what one airline or government does in one country can have a profound effect on airlines around the globe. How will industry consolidation in Europe and the United States affect airlines? How will decisions regarding the competitive impact of various airline alliances in Washington and Brussels change the business environment? How have open skies agreements influenced business strategy? Drawing on his knowledge of the global market from his days at Pan Am and American Airlines and his experiences running one of the world's leading carriers, Frederick W. Reid, president and chief operating officer of Lufthansa German Airlines, will explore these issues in an ESI noontime.

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Bob Davis
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Staff Reporters, The Wall Street Journal

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PRESS RELEASE

ANTIDUMPING LAWS AND THE U.S. ECONOMY

by Greg Mastel

M.E. Sharpe: Armonk, NY - May 1998

$24.95 paperback

EMBARGOED FOR RELEASE: TUESDAY, MAY 5, 1998 – 11AM ET

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(Washington, DC) The Economic Strategy Institute (ESI) is pleased to announce the release of *Antidumping Laws and the U.S. Economy* by Greg Mastel, vice president and director of studies at ESI.

Drawing upon case studies and legislative history, *Antidumping Laws and the U.S. Economy* traces the integral linkages between antidumping laws and support for trade liberalization in the United States. For years, critics of antidumping laws have attempted to portray them as protectionist devices. As the primary tool for ensuring that foreign trade is fair as well as free, however, antidumping laws protect the U.S. economy from countries that pursue mercantilist trading strategies and protect the integrity of the world trading system. As the book explains, far from being an enemy of free trade, antidumping laws and free trade go hand-in-hand.

For the first time, *Antidumping Laws and the U.S. Economy* provides a comprehensive historical, legal, and economic case for the aggressive use of U.S. antidumping laws. The book also includes an exhaustive analysis of the impact of the Uruguay Round international trade agreement upon the operation of U.S. antidumping laws.

Using statistical analysis, case studies, and economic simulations, Mastel makes the case that dumping is an integral part of foreign mercantilistic trade strategies and that U.S. antidumping laws remain an indispensable trade policy tool to counter dumping.

- more -

The up-to-date analysis of antidumping actions, the economic simulations of the long-term costs of dumping, the complete discussion of the Uruguay Round antidumping agreement, including the full text of the agreement, and the thorough discussion and bibliography on major antidumping cases, are features that simply are not available in any other text. The book also includes a thorough discussion of antidumping policy issues now being considered by the Clinton administration and by the Congress, including sunset reviews, antidumping procedures for non-market economies, short-supply exemptions, and duty absorption.

This book literally redefines the debate on antidumping laws and is an indispensable resource for anyone interested in international trade.

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OPINION

Asia's Flawed Fundamentals

AS ONE ASIAN ECONOMY AFTER ANother has melted down over the past nine months, politicians and pundits ranging from Japanese Prime Minister Hashimoto to the *Washington Post* to the World Bank's chief economist have all emphasized that there is no cause for alarm because Asia's "sound economic fundamentals" provide the basis for a quick, solid recovery. Although meant to be comforting, this incantation is dangerously misleading. Why? It implies the main problem is financial mismanagement. In fact, the very "fundamentals" these experts say will reemerge to save Asia are the cause of the crisis and, if left unchanged, will exacerbate it.

The usual lists of Asia's economic virtues include (1) small government, (2) high rates of saving and investment, and (3) export orientation. Fine qualities all, but let's examine the realities.

Start with government's role. While Asian governments may not absorb large percentages of their country's GDP, they can hardly be considered small in terms of their impact on their economies. Obsessed with catching up with the West and operating without a rule of law, Asian bureaucrats have used their unbridled power pervasively to compel their citizens to become big savers and have used these savings to target development in industries like autos and steel. (One may argue that Singapore and Hong Kong are exceptions to this *dirigiste* pattern, but Singapore is not called the "nanny state" for nothing, and in Hong Kong most fortunes have been made in real estate, a highly regulated sector.)

Initially this kind of government guidance led to the rapid economic growth that we have come to call the "Asian miracle." But it also has resulted in cartelization, overreliance on targeted industries, and a dampening of market signals, which, in turn, have fostered massive overcapacity in industries ranging from steel and autos to disk drives and semiconductors. It's this glut of goods that's now making it difficult for Asia to sustain its growth trajectory.

The rising investment that sparked growth in Asia was predicated on the assumption of ever-rising exports. This assumption may no longer be valid. For a long time, export-led economies like Japan and Korea were few and relatively small compared with importing economies like the U.S., and this export strategy worked well. But as the exporting economies grew and proliferated, the rapidly growing volume of exports began to shake the very foundation of the Asian miracle. China's devaluation of the renminbi in 1994, and, even more important, Japan's efforts to escape recession by restarting its own export machine through yen devaluation between 1995 and 1997 signaled the end of the game. In the face of competition from Japan and China, export growth in the rest of Asia fell from a peak of 30% in early 1995 to zero by mid-1996. In a desperate effort to keep things afloat, Asian companies dramatically increased their short-term bank borrowings, but in the face of continued export stagnation, this was not a sustainable strategy, and the outbreak of the present crisis became only a matter of time.

In resolving the problem, the IMF and world leaders must, of course, urgently address the immediate issues of shaky banking systems, transparency, and financial management. But it is important to understand that a repeat of the crisis cannot be averted without addressing the flawed Asian fundamentals that tend to destabilize markets and generate crises.

The first step should be the establishment of a true rule of law, which means curbing the discretionary power of bureaucrats to guide Asia's economies. A condition of any bailout or loan extension should be commitments—enforceable by the World Trade Organization—to get the bureaucrats out of the affairs of business.

As important, Asia must find ways to restructure the balance between saving and consumption. We have seen that Asia tends to save too much and consume too little. One of John Maynard Keynes' great insights was the paradox of savings, by which he meant that excessive savings contributed powerfully to America's Great Depression by creating too many goods chasing too few buyers.

However, by imposing austerity on troubled Asian nations, the International Monetary Fund may actually be exacerbating the situation. Most Asian governments did not have big budget deficits before the crisis. Indeed, Thailand and Indonesia had surpluses in 1996. To avoid the problem of excess production capacity, a bit of stimulation rather than austerity may be in order. Tax cuts and creation of a social safety net should be coupled with a breakup of large industrial and financial groups that monopolize key industries and collude to set high prices. At the same time, far-reaching deregulation should abolish the provisions that compel saving (such as compulsory payroll savings deductions) and suppress consumption.

In the immediate future, exports will more than ever be the lifeblood of the Asian economies, and the U.S. must accommodate their needs by being the buyer of last resort. But it is important to remember that the U.S. is currently the only significant net buyer in the world system. And because the U.S. consumes more than it produces, it is able to play this role only because other countries, particularly those in Asia, continue to lend it the money to do so.

This is not a stable long-term situation, because eventually the lenders will be less willing to lend, the dollar will fall, interest rates will rise, and the global trading system could plunge into a deflationary recession. This threat must be addressed by increasing demand in Asia and closing uneconomic Asian factories and businesses. In particular, world leaders must insist that Japan restructure its economy toward a model that favors domestic demand, and stop trying to export its way out of trouble at the expense of the rest of Asia. Otherwise, the Asian miracle will remain nothing but a distant memory. — *Clyde Prestowitz*

CLYDE PRESTOWITZ *is president of the Economic Strategy Institute and a former U.S. Trade Negotiator.*

The Washington Post

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Tuesday, April 7, 1998

Clyde Prestowitz

A Plan for Japan

After months of insisting its vast wealth immunizes it against the Asian economic flu, Japan seems to be contracting an especially virulent case, with its economy now shrinking at a 2 percent annual rate. In response to domestic and foreign pressure, Prime Minister Ryutaro Hashimoto recently announced a $120 billion public works stimulus package and was promptly criticized by Sony Chairman Norio Ohga, who said Japan is on the verge of meltdown and joined foreign analysts in calling for tax cuts to go along with the spending.

In fact, whether it is tax cuts or spending doesn't matter. Any stimulus package at this point is like putting a patient who needs a new heart on life support. It may be a necessary measure, but it is not a sufficient one.

The problem is that the standard fiscal tools work poorly within the present clogged structure of Japan's economy. Since 1992, Japan has reduced interest rates to virtually nothing, spent nearly $700 billion on various pump-priming programs, and run an overall government budget deficit of over 7 percent of GDP (twice the size of the U.S. deficit at its peak) without lasting effect. Why this new package should yield different results is not clear. In fact, there are several reasons why it probably won't.

First, the Japanese banks are critically overburdened with nonperforming loans and are desperately trying to improve their anemic capital-to-loan ratios by cutting back on new lending. Thus, as fast as the government injects fiscal stimulus into the economy, the banks are withdrawing it, giving rise to a wave of bankruptcies and a loss of confidence on the part of businessmen and consumers alike.

Added to traditional impediments to consumption and growing concern over the adequacy of pensions for its rapidly graying society, this bearish psychology is driving Japan's already high personal savings rate to levels that will undercut the potential impact of any tax cuts by ensuring that tax savings will simply wind up lying around the house.

Finally, Japanese public works spending has become so exorbitant and corrupt over the years that it is an extremely inefficient stimulant. Just buying the land and making the requisite payoffs for paving riverbeds and building bridges to nowhere eats up so much of program budgets that little is left for direct economic stimulus.

In fact, the only way for fiscal packages to become effective is through the quadruple bypass of deregulation and market opening. But for one of the world's most bureaucratic societies, the concept of deregulation is difficult to grasp.

The truth is that Japan's leaders don't know what to do. Thus, if the United States and others really want Japan to become a locomotive for growth in Asia, they should develop a recommended action plan.

The first step must be restoration of the health of the banking system. To achieve this, the government must clean up the banks' balance sheets by taking responsibility for nonperforming loans. At the same time, Japan's Deposit Insurance Corporation should be strengthened to ensure protection of depositors, while banks with inadequate capital reserves are closed.

Land use regulations are among the major drags on the Japanese economy. At the moment, 15 percent of metropolitan Tokyo is in vegetable patches, while the Japanese public is compelled to live in tiny houses that inhibit consumption simply because they can't hold a second telephone or television set. Rezoning, reduction of agricultural subsidies and revamping of building codes would unclog this bottleneck and unleash a tidal wave of increased consumption of all kinds.

Electricity, airline tickets, telephone calls, taxi rides, hospital stays, package delivery and most retail goods cost substantially more in Japan than elsewhere because their sale is heavily regulated. Allowing free entry into these and other regulated businesses would greatly reduce prices and thereby stimulate further consumption and economic growth.

Finally, cartels and anti-competitive business practices constitute a major cause of excessively high prices and sluggishness in the Japanese economy. This situation could be changed dramatically by allowing corporations as well as the Fair Trade Commission to file antitrust actions. An introduction of criminal penalties along with triple damage awards would also put teeth into the anti-monopoly laws, as would substantial increase in the staff and budget of the FTC.

To ensure that Japan takes these or other recommendations seriously, it might be necessary for world leaders to convene an extraordinary session of the World Trade Organization. It was John Maynard Keynes who proposed in the 1940s that a world trade body should have emergency measures for handling threats to the trading system arising from chronic surpluses as well as from excessive deficits. Perhaps it is time for the WTO to come to grips with this long-recognized problem in a way that would encourage Japan seriously to consider a thorough opening of its market to both domestic and foreign enterprises.

The writer is president of the Economic Strategy Institute.

THE INTERNATIONAL ECONOMY
The Magazine of International Economic Policy
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Can China Avoid the Asian Disease?

Not without facing its Achilles' heel: hundreds of thousands of bleeding state owned enterprises which threaten the banking system.

BY GREG MASTEL AND ANDREW SZAMOSSZEGI

As the Asian economic crisis has engulfed more and more countries, many observers have confidently predicted that China would avoid the economic crisis because China is different. In many respects, those observers are correct. Unlike Thailand, Korea, and Indonesia, China still tightly controls its foreign exchange, runs trade large surpluses, and maintains a huge level of foreign exchange reserves, which makes any catastrophic drop in the yuan unlikely. In addition, most foreign investments in China are in plants and equipment, and are unlikely to be swept up in the wave of speculation that hit other Asian markets. Beyond that, China draws economic strength from an enormous labor force and a growing industrial base.

China, however, has its own economic Achilles' heel: the enormous, inefficient, and bankrupt State Owned Enterprise (SOE) sector. The World Bank and even Chinese officials themselves acknowledge that SOEs are an enormous burden on the Chinese economy, and much of the nation's domestic savings are absorbed propping up SOEs. Direct subsidies have been reduced, but China's banks have been directed to fill the void by making "loans" to SOEs. The total of unrecoverable loans has grown so large that it now endangers the solvency of the Chinese banking system.

Even after two decades of economic liberalization and reform, SOEs continue to play a major role in the Chinese economy. According to Chinese statistics, there are more than 300,000 SOEs, 40 percent of which are

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classified as "industrial." Despite their falling share of output, production by SOEs is rising, and they are still responsible for about one-third of China's industrial output.

These statistics somewhat understate the role of SOEs in the Chinese economy. In addition to those firms directly owned by the state, there are subsidiaries of SOEs, joint ventures between SOEs and township and village enterprises or private firms, and ostensibly private firms which have direct links to government ministries and government officials, such as those operated by officials of the People's Liberation Army (PLA). China's SOEs are major employers, with more than 100 million people on their payrolls. To put this in perspective, there are currently about 130 million people employed in the entire United States. In many of China's urban areas, SOEs employ the majority of the workforce. By some estimates, as many as one-third of these employees could be laid off with no loss in productivity.

SOEs are a diverse group of enterprises. They range from small local service-oriented enterprises that employ only a handful of employees to large heavy manufacturing companies that employ thousands producing steel, chemicals, or other products. Many have direct ties with the government ministries charged with regulating them. The Ministry of the Chemical Industry, for example, operates a number of chemical manufacturing companies. Although much of China's export boom is the result of its growing private and foreign-invested sectors, SOEs continue to play an important role in foreign trade. During the first ten months of 1997, SOEs, including foreign trade corporations, were responsible for 56 percent of China's exports and 43 percent of its imports (see Figure 1).

As the Chinese Communist Party acknowledged at its most recent Party Congress, reforming inefficient SOEs is perhaps China's most pressing economic task. China simply cannot afford to make enormous economic transfers to the state-owned sector forever. The Chinese economy is already straining under the burden. Due to state-directed bank lending and loans among SOEs, hundreds of billions of dollars worth of unrecoverable loans hang over China's banking system like a sword of Damocles, threatening to push China into the economic abyss with Indonesia, Malaysia, and South Korea.

Even after two decades of economic liberalization and reform, SOEs continue to play a major role in the Chinese economy.

Ironically, the SOE threat to China's domestic economy is also a threat to its efforts to become fully integrated into the international economic system. SOE reform is one of the highest hurdles standing in the way of China's decade-long campaign to join the World Trade Organization (WTO). The WTO does not prohibit state ownership per se. In fact, a number of WTO members maintain SOEs. The WTO does, however, greatly restrict subsidies to SOEs and limit the trade actions of state trading enterprises. China's SOEs violate both of these WTO provisions.

At the recent Party Congress, President **Jiang Zemin** *endorsed the concept of selling stock in and effectively privatizing many, but not all, of China's SOEs.*

Through the years, SOE shortfalls have been covered with direct and various indirect subsidies. Although direct subsidies are known, there is no reliable estimate which captures the total flow of funds from the government to SOEs. Indirect subsidies include bank loans that are never likely to be repaid, research and development subsidies, and preferential access to inputs such as energy. Cumulatively and perhaps individually, these subsidies are far in excess of the WTO's limits on subsidies. Moreover, the recent state discipline on direct subsidies (see Figure 2) has led to an increase in indirect subsidies and local government funding of SOEs.

The issue of compliance with state trading provisions is a bit more complex, mostly because the world trading system has made only limited progress in regulating state trading enterprises. Almost since the creation of the world trading system, there has been an appreciation that government trading monopolies could thwart tariff bindings and prohibitions on quantitative

Making the SOEs WTO-Friendly

"There are several ways to bring China's state owned sector into WTO compliance while improving the nation's economy. The simplest of these is to phase down the level of subsidies paid to the SOEs, which would enable China to comply with the WTO and cure its domestic ills in one stroke. Exporting SOEs are a logical starting point for phasing out subsidies. To avoid massive trade distortions, these SOEs should have their subsidies reduced quickly, and more rapidly than other firms. There is a logic to this formula because the GATT prohibited export subsidies long before it began limiting domestic ones. While Chinese subsidies remain in place, other WTO members should maintain special rights to restrict exports from China's SOEs to prevent undue market distortions. Subsidies to SOEs that produce goods that compete with imports and the control that many SOEs exert over imports pose significant market access barriers. If China's trading partners are ever to enjoy reciprocal access to China's market under the WTO, these issues must be addressed.

"A lasting solution requires the elimination of subsidies and state trading powers. In the interim, the agricultural provisions of the Uruguay Round suggest another possible avenue. The final agreement requires a minimum guaranteed access level for imports in several tightly protected agricultural sectors. Similarly, a minimum level of import access in sectors dominated by SOEs could improve access for China's trading partners, thus enabling market forces to take hold. Over time, new consumer demand and increased familiarity with imports should build internal pressure for continued trade liberalization.

"Another portion of the Uruguay Round agriculture agreement provides a model for dealing with the employment implications of SOE reform. Under the Uruguay Round agreement, countries are allowed to replace prohibited agricultural production subsidies with direct payments not tied to production. This allows governments to provide farmers with income support without distorting trade. The same approach could be used with China's SOEs. Instead of subsidizing SOEs to keep workers employed, Beijing could make payments directly to unemployed workers, perhaps linked to some adjustment period or a retraining program. Unemployment benefits would not distort world markets, and would still allow China to meet the social and political needs served by SOEs. China could continue these payments as long as it wished because, in effect, they would convert the international trade problems of SOEs entirely into a domestic budgetary problem."

—*G. Mastel and A. Szamosszegi*

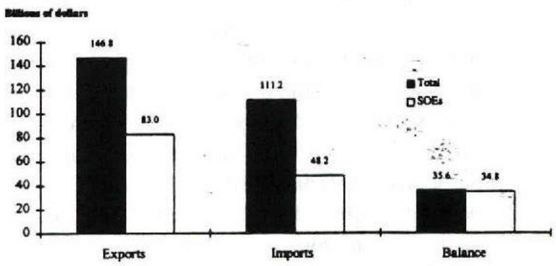
restrictions by merely implementing unannounced de facto limits on import purchases. Article XVII of the GATT was drafted and expanded in the Uruguay Round to provide some discipline to state trading activities; these provisions have a limited track record, however. In China, many SOEs have both direct and indirect power to control imports, particularly imports that compete with them. Given the many linkages between SOEs and their parent ministries, this is a particularly difficult problem to police with regard to China, but if it is ignored, other countries will be effectively denied access to portions of China's market.

There are, however, several ways to bring China's state owned sector into WTO compliance while improving the nation's economy. A number of ideas have been proposed to address trade reform and SOEs. The simplest of these is to phase down the level of subsidies paid to the SOEs, which would enable China to comply with the WTO and cure its domestic ills in one stroke. China has expressed interest in this approach, but it is by no means an easy solution because SOEs employ so many people. An army of forty million unemployed Chinese would pose enormous economic, social, and, ultimately, political challenges that China seems ill-prepared to address. Unless accompanied by a massive program to address the resulting unemployment, a phase-down would put the Chinese government in an untenable situation.

At the recent Party Congress, China's President Jiang Zemin endorsed the concept of selling stock in and effectively privatizing many, but not all, of China's SOEs. This proposal is difficult to evaluate because its details have yet to be fleshed out. Yet it is clear from other countries' experiences with privatizing SOEs that market actors typically wait until prices are deeply discounted before purchasing inefficient government enterprises. Such bargain hunting would still leave China's banks with mountains of bad debt. In China's case, it is difficult to imagine many of its flabby

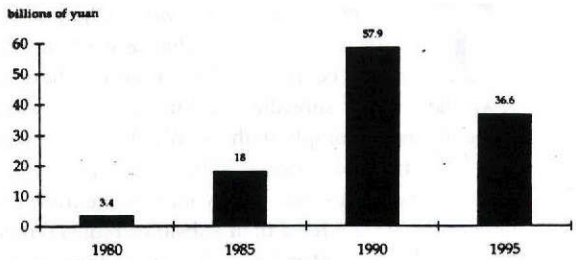
In many of China's urban areas, SOEs employ the majority of the workforce. By some estimates, as many as one-third of these employees could be laid off with no loss in productivity.

Figure 1. Trade by China and Its State-Owned Enterprises January-October 1997



Source: State Statistical Bureau

Figure 2. Direct Government Subsidies to State-Owned Enterprises



Source: World Bank

SOEs attracting much private investor interest. This approach is therefore likely to succeed with only a few of the stronger SOEs, and loss-generating enterprises will probably remain wards of the state.

China's SOEs most directly involved in international trade pose serious compliance issues. Exporting SOEs are a logical starting point for phasing out subsidies. To avoid massive trade distortions, these SOEs should have their subsidies reduced quickly, and more rapidly than other firms. There is a logic to this formula because the GATT prohibited export subsidies long before it began limiting domestic ones. While Chinese subsidies remain in place, other WTO members should maintain special rights to restrict exports from China's SOEs to prevent undue market distortions. Exporting SOEs are only part of the problem, however. Subsidies to SOEs that produce goods that compete with imports and the control that many SOEs exert over imports pose significant market access barriers. If China's trading partners are ever to enjoy reciprocal access to China's market under the WTO, these issues must be addressed.

A lasting solution requires the elimination of subsidies and state trading powers. In the interim, however, the agricultural provisions of the Uruguay Round suggest another possible avenue. One of the Uruguay Round's primary objectives was the removal of trade distortions in agricultural markets. The final agreement requires a minimum guaranteed access level for imports in several tightly protected agricultural sectors. Similarly, a minimum level of import access in sectors dominated by SOEs could improve access for China's trading partners, thus enabling market forces to take hold. Over time, new consumer demand and increased familiarity with imports should build internal pressure for continued trade liberalization.

Another portion of the Uruguay Round agriculture agreement provides a model for dealing with the employment implications of SOE reform. Under the Uruguay Round agreement, countries are allowed to replace prohibited agricultural production subsidies with direct payments not tied to production. This allows governments to provide farmers with income support without distorting trade. The same approach could be used with China's SOEs. Instead of subsidizing SOEs to keep workers employed, Beijing could make payments directly to unemployed workers, perhaps linked to some adjustment period or a retraining program. Unemployment benefits would not distort world markets, and would still allow China to meet the social and political needs served by SOEs. China could continue these payments as long as it wished because, in effect, they would

Reforming inefficient SOEs is perhaps China's most pressing economic task.

convert the international trade problems of SOEs entirely into a domestic budgetary problem.

In the end, each of these approaches to SOE reform seem likely have some role to play. Collectively, they can be combined to pave the way for China's entry into the WTO. The specific application of these proposals to particular sectors can best be worked out in the current WTO accession negotiations. But no matter which avenue China chooses to take, reforming its SOEs will require some sacrifice. China has benefited tremendously from the market reforms it has undertaken; most of the miraculous economic growth the country has enjoyed in the last two decades can be traced to them. By making a full commitment to market-based solutions and tackling SOE reform, China can provide its trading partners real access to its market, join the WTO, and become a full- fledged member of the world economy. While achieving this long-standing international economic goal, China can also tackle its most vexing domestic economic problem and put itself on a path toward continued economic growth. ◆

AMERICA'S NEWSPAPER

The SUNDAY Times

SUNDAY, FEBRUARY 8, 1998

Will another shoe drop?

(A technical malfunction caused paragraphs to appear out of sequence when it first was published on the Commentary pages last Sunday. It is reprinted here in correct order for the benefit of our readers.)

With almost each passing day, the Asian financial crisis makes more headlines as another country's stock market plunges, another currency drops, or the International Monetary Fund (IMF) is called upon once again to come to the economic rescue. There is, however, another shoe that may drop; China could act to bolster its trade position and, if it did so, set off yet another wave of economic difficulties in Asia. While U.S. efforts are appropriately focused upon solving current problems, much attention must also be given to ensuring that China not exacerbate problems in Asia.

By most measures, China is clearly the most powerful economic force on the Asian mainland. Foreign investment is flowing into China at a rate of nearly $40 billion per year. Last year, China's global trade surplus reached a new record of $40 billion. On the strength of foreign investment and exports, the Chinese economy has been the fastest growing in the world; China has maintained a nearly double digit average growth rate over the last decade.

Thanks to its economic strength, the long time frames of most of its foreign investors, and the government's control of China's currency — the yuan, China appears immune from the economic travails of the rest of Asia. Those appearances could be deceiving, however.

China's banks are greatly overextended because of unwise lending to State Owned Enterprises (SOEs). More importantly in the short term, the decrease in the value of China's neighbors currencies relative to its own poses a serious economic challenge for China. China's neighbors compete with China in world markets as producers of textiles, apparel, toys and games, and a variety of other products. China has dominated those markets in recent years, but these currency changes now make products form Indonesia, Malaysia and Korea relatively much cheaper. Due to this depreciation, China already seems to be losing some export sales to its neighbors. Beyond that, promises of future foreign investment in China have been declining. It is not hard to imagine these factors combining to create serious economic problems for China. At the very least, the Chinese economy faces some serious tests.

But how will China meet these tests? China could take the "easy" way out. It could use its foreign exchange controls and currency reserves to depreciate the yuan and keep its system tightly restricted to ensure that its domestic banks and companies do not face foreign competition.

Thanks to its economic strength, the long time frames of most of its foreign investors, and the government's control of China's currency — the yuan, China appears immune from the economic travails of the rest of Asia.

China could certainly carry out such a policy. The U.S. Treasury Department has noted several times that China has used its foreign exchange controls to manipulate the value of the yuan to increase its exports. Some even argue that China's decision to devalue the yuan in 1994 is actually the root cause of Asia's current economic problems. This "easy" approach would stop the erosion of China's exports, but it could wreak havoc on the world economy. If other Asian countries could not sell their exports because they were displaced by China, the economic troubles in the rest of Asia could get much worse. A new wave of crises might even be launched. Even China's new dependent, Hong Kong, could be devastated. China's decision to devalue the yuan could force Hong Kong to devalue its currency the new Hong Kong dollar, which could send foreign investors fleeing and tip its economy into turmoil.

This approach also would not solve China's long run problem. Foreign investors may decide to look for other investment markets because the heavy hand of China's government imposes too great a burden. If the flow of investment decreased, China's growth could stall, and China could be facing an economic crisis of another kind.

China, however, could and has publicly indicated it will respond in a more responsible way. China could maintain the value of the yuan and continue working to liberalize its economy and take adjustment measures, such as establishing a real worker retraining program, to deal with the short term consequences. Under this approach, China would see its exports decline in the short term, but adjustment could make China's economy stronger in the long term. Taking a responsible stand would also gain new respect for China in the eyes of the world, particularly in the eyes of its neighbors. Liberalization of the economy would open the door to China becoming a full fledged member of the world economy and a member of the World Trade Organization. This new status, would reassure foreign investors that the Chinese economy is a good long-term investment.

To its great credit, China seems to be trying to take a responsible approach. The United States, as both the major market for Chinese and other Asian exports and a major financier of the economic bailout of Asia, has a strong interest and considerable influence in encouraging China to take responsible steps and supporting its actions. If U.S. officials do not and China takes the "easy" path, Asia may only have seen the beginning of its current economic problems.

Greg Mastel is a vice president and senior international economist at the Economic Strategy Institute.

San Jose Mercury News

TUESDAY
FEBRUARY 24, 1998

IMF rescue could ultimately help consumers, the global market and the U.S.

Making the best of Asia's crisis

BY GREG MASTEL

IN the next few weeks, as Congress debates funding for the International Monetary Fund to help rescue Asia's troubled economies, the debate over the region's turmoil is likely to dominate headlines.

As the congressional debate begins, however, it is important to put the crisis in perspective.

Asia's economic problems do pose dangers for the U.S. economy, but they also create an opportunity. It's an opportunity to address an even more serious underlying problem.

Can the IMF and the United States, in return for economic rescue funds, persuade Korea, Indonesia and other Asian economies to abandon mercantilist, export-focused economic policies modeled on Japan's?

If the answer is yes, then the immediate economic prospects of these countries can be improved and the economic relationship between Asia and the United States greatly strengthened.

Many analysts assume that Asia's economic problems are similar to those of Mexico and other Latin American countries, but this is not the case. All are guilty of pursuing poor economic policies, but Asia's economic sins are quite different.

Mexico and Latin America overconsumed and pursued unsound fiscal policies. The Asian economies actually underconsumed while overbuilding and overproducing.

The Asians, assuming a future of limitless export markets, built manufacturing plants and office buildings financed by banks willing to put aside sound lending practices and bet on continued, unsustainable growth. This speculative bubble has now burst and Asian currencies and stock markets have deflated.

The IMF has usually approached its crisis interventions by pressing its unhappy clients to pursue austerity policies — raising interest rates, lowering wages and emphasizing exports over domestic consumption. In some respects, this is the wrong prescription for Asia.

Curing Asia's economic ills requires austerity on the production side, not the consumption side. Consumers do not need to be made poorer, but Asia should be forced to end "crony capitalism" and stop building production capacity with no economic basis.

Increased exports may be necessary in the short term. But instead of increasing already excessive reliance on export markets, these countries should be encouraged to build production more in response to domestic markets.

To implement this prescription, the IMF should pressure Asian economies to open their markets by lowering trade barriers, ending state-directed bank lending and cracking down on corporate collusion.

In the short term, these countries are unlikely to be able to sharply increase imports. But in the long term, these steps would open the marketplace and allow it — not bureaucrats — to make economic decisions. Market pressure would halt the building of factories that have no economic basis. Increased openness to imports, by increasing competition, would lower consumer prices and relieve some of the economic contraction's impact on consumers.

This would not be a radical departure for the IMF. In Russia, India and many Latin American countries, the IMF sought to reduce protectionism as a condition of its aid. Similar assurances have already been sought in Asia.

But the IMF must go further. Reducing protectionism and other mercantilist policies should be a primary condition for economic support, not simply a footnote.

Most important, the IMF should seek permanent changes in trade and industrial policies. (In the past, the reforms demanded by the IMF were forgotten and protectionism crept back after the crisis was over and the IMF no longer needed.)

> Reducing Asia's protectionism and other mercantilist policies should be a primary condition for economic support.

To accomplish this, the market-opening commitments made to the IMF should be institutionalized in enforceable, permanent commitments under the World Trade Organization and through bilateral trade agreements with the United States or other major countries.

In close parallel, the IMF, the United States and like-minded economies should press Japan to finally open its economy and absorb more exports from its troubled Asian neighbors.

This would greatly help to solve the immediate problem of bolstering the struggling Asian economies.

Some will likely argue that this approach would entail pressing too much change on Asia. However, since mercantilist economic policies are the core cause of the current difficulties, it is entirely reasonable to demand they be altered in return for assistance.

Otherwise, the current crisis could recur.

Just as important, a package linking rescue funds for Asian economies to market openings would be much more salable to a skeptical Congress.

If the IMF and the United States took this approach to rescuing the economies of Asia, it would be a win-win-win proposition.

The underlying causes of Asia's economic troubles would be eliminated, Asia's consumers would be allowed to enjoy the benefits of free trade (which would ultimately mean a better standard of living) and the United States would gain better economic and trade partners in Asia.

Such an approach may also be the only way to gain political support among the American public and in the Congress for an Asian economic rescue.

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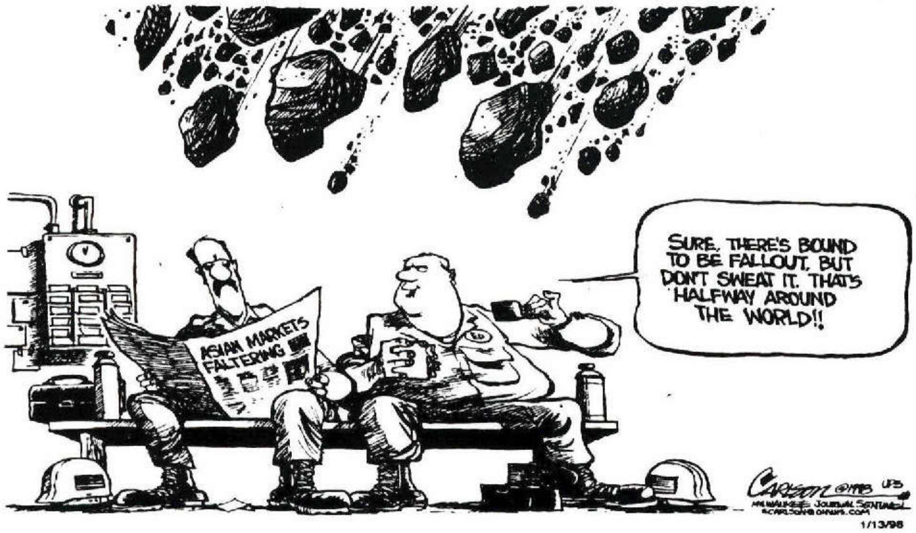
AMERICA'S NEWSPAPER
The SUNDAY Times

SUNDAY, JANUARY 25, 1998

ANDREW SZAMOSSZEGI



Flying in the face of market realities

As Asians assess the damages from what must seem like a never-ending economic monsoon, many observers have already spotted a silver lining. They expect the current storm to wash away the Asian model of government policies and private practices that produce closed markets, government-directed lending, dumping, and other non-free-market behavior. In other words, Asian economies will soon become like us.

Optimists anticipating rapid change may be in for a surprise. Thus far, government and corporate actions alike suggest that achieving free-market nirvana won't be easy. Despite the wrenching events of the past half-year, Asian businesses and governments remain reluctant to abandon the economic model that produced decades of rapid growth and poverty alleviation.

That yesterday's excesses caused today's troubles is beyond a doubt. Regional governments created an environment that encouraged companies to defy market economics. Immune to market forces that punish poor investments, companies in Japan, Korea and elsewhere in Asia pursued market share regardless of how that pursuit affected the bottom line. Asian industrialists found that the more they invested, the more powerful they became, and often looked with disdain at American preoccupation with profitability, transparency and credit analysis.

Such unmitigated investment created excess capacity in a number of industries, bubbles in regional stock and property markets, obscene reliance on debt and, ultimately, a crisis in confidence that sent three of the region's major economies to the IMF.

Yet, despite the market's unkind verdict, signs are everywhere that Asia's predicted embrace of U.S.-style capitalism may turn out to be a short-lived affair. The governments receiving IMF assistance have balked at implementing the agreed reforms. Indonesia, for instance, vacillates over the fate of monopolies and projects near and dear to President Suharto's inner circle, while South Korea treads gingerly around the subjects of labor and "chaebol" reform. The IMF is working overtime just to ensure that recipient governments live up to their end of the deal.

Though governments play an important role, a lasting solution also requires that Asian firms invest with an eye on profitability. Here, too, evidence of full-scale commitment to the free market is lacking. Signs indicate that many Asian companies view the current crisis as a war of attrition. Instead of embracing reform, they are merely hunkering down until the storm blows over.

Korea's largest airline, Korean Air, provides a case in point. Its fuel costs have risen dramatically as the won has plummeted against the dollar. Its load factors (the percent of seats filled on each flight) have dropped precipitously as the economic crisis has curtailed foreign and domestic travel. According to Aviation Daily, domestic load factors fell 10 percent from November to December, and international flights were hit even worse. Flights to Europe and the Middle East are almost two-thirds empty.

The company has made some effort to bolster its short-term financial performance. It raised prices on domestic flights, cut back on its beverage service, and halted its least profitable routes.

Unfortunately, as if flying in the face of the region's deteriorating air-travel environment, Korean Air is keeping its longer-term expansion plans intact. The company has eleven planes ordered for delivery this year — all designed for long-haul travel — and, as of last week, was insisting that deliveries take place as planned. Moreover, rather than prudently shedding capacity, Korean Air has put off deeper restructuring by selling six planes and leasing them back. That gimmick provides cash without "sacrificing" excess capacity, and exacerbates the Asia-wide slump in airline demand.

Similar patterns are evident in the steel industry, where two bankruptcies last year did little to resolve Korea's capacity problems, because the government-owned POSCO, second-largest steel producer in the world, kept some of the failed mills operating. Nevertheless, the Hyundai Group has refused to scrap its plan to construct a $5 billion steel project and add still more capacity.

These actions are instructive. They reflect a deep-seated commitment to investment-led growth and expansion, a commitment mirrored by other major companies in Korea and elsewhere, a commitment apparently matched only by the region's aversion to retrenchment.

If the current crisis is to be overcome, and if a repeat performance is to be avoided in the future, Asian governments will have to adopt a market-based financial system that enforces economic rationality on corporate investment decisions.

Persuading Asian governments and businesses to submit to the will of the market will be difficult, to be sure. After all, three decades of crony capitalism will not disappear overnight. However, unless Asia's corporate mindset is replaced by a commitment to the dictates of the market, it is hard to envision the "just like us" scenario becoming a reality.

Andrew Z. Szamosszegi is senior research associate at the Economic Strategy Institute.

THE INTERNATIONAL ECONOMY

IMF Malpractice

It's time for a new, Japan-targeted Asia prescription.

BY PETER MORICI

Last December, Korea accepted the terms of an IMF rescue program. Within eight days, the won fell 34 percent, and Thompson Financial Services downgraded its sovereign debt citing the likelihood that the $57 billion IMF package would be insufficient. Like Thailand and Indonesia before it, Korea agreed to the standard issue IMF formula: tighter monetary policy, higher taxes, lower government spending, and banking reforms. This is much like the terms imposed on Mexico in 1995, yet none of these economies achieved the quick return to exchange rate stability Mexico enjoyed within three days of accepting IMF disciplines.

Much has been made of the fact that Mexico acted quickly to clean up its banks and impose sound commercial practices on its financial sector, while Asian governments have been reluctant to let markets punish profligate financiers and force industrialists to accept the consequences of reckless investments. However, Asian governments will have to do more than embrace economic fundamentalism to save their economies from ruin. The problems Asian governments face today are radically different from those Mexico addressed in 1995, and they require much different solutions.

In 1994, Mexico initiated a free trade agreement with the United States. This concluded a decade of sweeping reforms, including privatizations in manufacturing, telecommunications and banking and the creation of a more hospitable environment for foreign equity investment. During this period, Mexico was eschewing the Asian model of creating national champions in industries like automobiles, steel, chemicals, and high-tech electronics and exposing its industrial giants to bracing winds of global competition. Foreign capital was underwriting sound new ventures. Unfortunately, like its Asian cousins, Mexico pegged its currency to the dollar. With inflation

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higher than in the United States, the peso became overvalued by mid-1994. When outgoing President Carlos Salinas sought to shore up the currency by issuing short term, dollar-denominated securities, an import binge and a run on the peso ensued. The U.S.-backed IMF austerity program was an appropriate tonic, because Mexico needed to cut consumption and restructure its short term sovereign debt. The economy was fundamentally sound but facing a liquidity crisis.

In contrast, most nations of East and Southeast Asia have pursued variants of the Japanese development model, which have included a heavy dose of state direction in choosing industrial investments, limits on foreign participation in banking and finance, export promotion, and mercurial barriers to imports. Under this approach, clubby relationships among government officials, businessmen and bankers funneled domestic savings and foreign capital into favored projects, inspiring cronyism, corruption and unsound investments. The end product was a pile of short term debt owed by Asian businesses, through their banks, to foreign lenders.

Paying the interest on mounting debt required dramatic growth in exports to industrialized countries that supplied the credit. From 1989 to 1995, East and Southeast Asian exports to industrialized countries expanded 15 percent a year, but expecting this pace to continue was a fool's errand. In 1996, the Asian tigers hit the wall. Exports to industrialized countries expanded only 1.4 percent, and preliminary data indicates these sales were flat during the first half of 1997. Historically, overseas sales have grown in fits and starts, but this time financial markets judged the slowdown to be more secular than cyclical.

For any one country, the combination of currency devaluation and IMF-enforced austerity could bolster exports enough to save ailing enterprises and restore the confidence of foreign creditors. However, the devaluations sweeping the region are having the same effect as cutthroat pricing among competitors in any overcrowded market. For example, the currencies of Korea, Indonesia and Thailand are down an average of about 50 percent against the dollar since July 1: the *volume* of their exports would therefore have to rise by at least 50 percent for the dollar value of their exports not to fall. It is doubtful that Asian automakers, steel mills and apparel factories can increase their market shares by that amount in the United States or anywhere else. Similarly, austere macroeconomic policies, if pursued across the region, would thrust Asia into a deep recession, exacerbating the crushing effects of the currency contagion on Asian balance sheets.

The United States should premise additional contributions to the IMF on a substantial role for private participation in the recapitalization of ailing enterprises and full cooperation by Japan in opening its markets, as measured by the gradual reduction of its trade surpluses.

Financial markets are not behaving irrationally in their assessments of the value of Asian enterprises or the credibility of IMF rescue efforts. Many businesses borrowed heavily in dollars to build new capacity, based on optimistic assessments of market growth and without much regard to the scope of

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Tokyo's Asia Responsibility

"Japan has a special responsibility because it has contributed significantly to the present crisis by limiting imports through the practices of the keiretsu. Although East and Southeast Asia enjoyed a trade surplus with the United States in 1996, they piled up a $51 billion trade deficit with Japan. In turn, Japanese banks have made massive loans in the region to finance persistent trade deficits—the cross-border exposure of Japanese banks in Asia is about $240 billion.

Any program to boost the intrinsic worth of East and Southeast Asian enterprises should require Japan to increase its purchases in the region substantially. This would require Japan to implement a domestic economic stimulus package much larger than the one announced in December, genuinely open its markets to imports, abandon its own pursuit of export-led growth, and come to terms with its banking problems with the same completeness the IMF is imposing on Korea, Thailand and Indonesia."

—*P. Morici*

competing projects elsewhere. The resulting glut of capacity has reduced the value of many enterprises below their outstanding debt. This is why the Korean stock index finished 1997 at about 30 percent of its 1996 year-end dollar value. In extreme cases like Korea, the aggregate net worth of the entire industrial sector may be negative at present exchange rates.

The IMF has failed to restore investor confidence in Asia, because it is treating troubled economies as if they faced liquidity and sovereign debt crises, when in fact they are facing private sector insolvency and the specter of national bankruptcy. A credible program to stabilize Asian economies must focus on raising the value of Asian enterprises by increasing demand for the products they make and facilitating the conversion of their short term debt into long term debt and equity investment. This would entail three elements:

First, Asian enterprises must rely less on exports. In Korea, for example, the government has little debt; instead of enforcing austerity, the IMF should therefore encourage Seoul to bolster domestic demand through investments in education, housing and the like, and provide special financing programs to improve worker access to these amenities. Throughout Asia such programs, coupled with efforts to encourage more equitable distributions of income, would do much to expand domestic demand for troubled enterprises.

Second, new sources of foreign demand will be needed. Japan has a special responsibility, because it has contributed significantly to the present crisis by limiting imports through the practices of the keiretsu. Although East and Southeast Asia enjoyed a trade surplus with the United States in 1996, they piled up a $51 billion trade deficit with Japan. In turn, Japanese banks have made massive loans in the region to finance persistent trade deficits—the cross-border exposure of Japanese banks in Asia is more than $225 billion. Any program to boost the intrinsic worth of East and Southeast Asian enterprises should require Japan to increase its purchases in the region substantially. This would require Japan to implement a domestic economic stimulus package much larger than the one announced in December, genuinely open its markets to imports, abandon its own pursuit of export-led growth, and come to terms with its banking problems with the same completeness the IMF is imposing on Korea, Thailand and Indonesia.

Third, even with new sources of demand, many Asian enterprises would not be able to service their debt fully. The ultimate resolution will require the sale of assets to investors having dollars to at least partially pay off creditors, and often qualified buyers will be foreigners. Additional official assistance from the industrialized nations should be premised on aggressive efforts to attract private long term debt and equity financing, and rely less on short term loans from the IMF and industrial country governments. The United States, Japan and European Union should not expose their taxpayers, either directly or through the IMF, to commercial risks that private investors are better able to assess and bear.

Rescue efforts to date have taxed IMF lending capacity, and it will need additional capital soon. The United States should

Financial markets are not behaving irrationally in their assessments of the value of Asian enterprises or the credibility of IMF rescue efforts.

premise additional contributions to the IMF on a substantial role for private participation in the recapitalization of ailing enterprises and full cooperation by Japan in opening its markets, as measured by the gradual reduction of its trade surpluses.

Critics of the latter proposals may say this smacks of managed trade. But the IMF is already setting targets for the current accounts of Thailand, Indonesia and Korea. Why not do the same for their role model? ◆

The Journal of Commerce

WEDNESDAY MARCH 25, 1998

Focus on trade, not taxes

BY LAWRENCE CHIMERINE

President Clinton's recently submitted federal budget not only calls for a balanced budget in the next fiscal year but projects modest surpluses thereafter.

This is a monumental achievement. Only a few years ago, the deficit approached $300 billion, and many forecasters predicted even bigger shortfalls into the next century.

How to spend these surpluses has created a Washington feeding frenzy. By far the worst idea is to enact a new round of large, across-the-board tax cuts, as is once again being advocated by some economists and political leaders.

First, the budget turnaround is not the result of tax increases, as this group claims. It is largely due to the near 3 percentage point decline since the early 1990s in total federal spending as a share of gross domestic product.

This of course reflects sharp declines in real defense expenditures and tight spending caps on discretionary social programs. The cost of servicing the national debt has also been held down by lower interest rates, again a partial result of budget discipline.

The strong growth in tax revenue in recent years primarily reflects stronger-than-expected economic growth, a sharp rise in corporate tax payments (given rising profit as a share of GDP) and a surge in capital-gains tax receipts from the stock-market boom — and is not the result of big tax-rate increases.

Second, as seen by the 1980s, the so-called Laffer curve is a fantasy. Big, untargeted tax cuts will cause a huge, ongoing revenue loss in the years ahead. This would be unwise given that the fiscal deficit is expected to rise over the longer-term, given that the cost of health and pension entitlement programs will skyrocket when the baby boomers start retiring at the end of the next decade.

Third, the argument that tax cuts are needed to insure adequate economic growth has also been discredited by recent economic history. To the contrary, we have learned over and over that the so-called supply-side effects are grossly exaggerated.

In particular, the increased savings, investment and economic growth widely predicted after the early 1980s tax cuts never materialized.

In fact, exactly the opposite happened. Personal and national savings dropped to all-time lows, business investment was weak and economic growth for the decade as a whole was the slowest of any decade since World War II.

Careful, you may awaken world conscience!

And, of course, the widespread prediction by supply-siders that the economy would tank and deficits rise sharply after enactment of the 1993 deficit-reduction package has not happened.

Instead, we've seen sustained prosperity, low inflation, an investment boom and the virtual disappearance of the budget deficit.

Supply-siders not only regularly overstate the incentive effects of tax cuts. They understate the importance of budget deficits.

In fact, by keeping interest rates down and national savings up, the declining deficit has been a powerful force underlying the surge in business investment, new capacity and higher productivity in recent years. This in turn has spurred strong, inflation-free growth.

The real threat to continuing prosperity and growth in the United States is trade and competitiveness.

In particular, the inflated value of the U.S. dollar against virtually all industrialized country currencies, and widespread currency collapses and economic weakness throughout Asia, threaten to push the already huge and persistent U.S. trade deficit off the charts in the next several years.

To be sure, some short-term widening of our trade gap may be necessary to help Asia recover.

But this should not become a base from which trade deficits rise further.

That's because trade deficits also matter — at a minimum, as indicated in a recent Economic Strategy Institute study, they shift the composition of the economy away from industries with high value-added investment, R&D and productivity growth, to those that generate lower wages and less additional value for the economy.

One of our top budget priorities, therefore, should be to increase funding, or extend tax credits, for research, technology and export-oriented programs above the levels the president proposed.

Because these programs have been cut sharply in recent years, and comprise a very small part of the budget, such increases will use only a small fraction of any future surpluses.

And, by improving U.S. competitiveness and reducing future trade deficits, the payoff in terms of economic growth would far exceed the direct budgetary impact. This would be a real supply-side program.

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The Journal of Commerce

WEDNESDAY APRIL 1, 1998

Trade's adjustment process

BY HOWARD D. SAMUEL

Supporters of open trade face a daunting challenge these days. Declining public support for expanded international trade — as demonstrated by President Clinton's losing battle for "fast-track" trade negotiating authority — will only be reinforced by the flood of low-cost imports from Asian countries desperate to revive their economies.

The fast-track struggle could have been predicted. Pat Buchanan and Ross Perot had spread doubts about the benefits of free trade, and polls had shown declining interest in expanding free trade regimes.

Future events may sour public attitudes even more. On the eve of the crisis in several Southeast Asian countries, the United States found itself on the wrong end of a trade deficit approaching $200 billion, with the likelihood that currency crashes in several countries will motivate them to increase exports to the United States.

"I'm putting my dad through job retraining."

There isn't much dispute that while an open trade system tends to help the economy as a whole, it can also cause disruption in industries vulnerable to foreign imports. The impact of the prospective Asian import flood is not hard to predict. Domestic producers of goods that will feel the impact early include traditionally vulnerable industries such as apparel and electronics and autos, as well as high-tech products including office machinery, computers and semiconductors.

There is no magic cure or simple answer, but a 35-year-old program called Trade Adjustment Assistance should play an increasingly vital role in easing the disruption. Embracing training and income support, TAA was designed to provide extra assistance to those dislocated from trade impacted industries as well as help them develop the skills required for the industries of the future.

Currently, TAA — which originally came into existence in 1962 — is comprised of two programs the original TAA covering most workers, and a newer program, Nafta-TAA, instituted in 1993 to cover workers affected by the North American Free Trade Agreement. The two programs today serve about 150,000 workers a year, at a cost of $300 million. Of this $120 million covers the training costs while the rest underwrites income support.

Over the years specific benefits and requirements have changed, and they differ somewhat between TAA and Nafta-TAA. Training is an integral part of both programs, but under the TAA program the training requirement can be waived because of age or local industrial prospects, and a worker would receive little benefit. Under Nafta-TAA no waivers are allowed. Also, under Nafta-TAA, workers become eligible for benefits if their plant closes and moves to Mexico and Canada — regardless of the impact of imports. Under TAA "fleeing factories" don't count.

And under TAA, only laid-off workers making finished products are covered; those making component parts or raw materials for finished products who are laid off are not considered eligible.

Despite the incongruities in the present programs, the principle of trade adjustment assistance has a role to play as the country tries to resume its drive toward open trade. But as Congress faces the responsibility of reauthorizing and refunding the programs, several changes should be made to increase their effectiveness.

First, the two programs should be combined. The differences in certification procedures, coverage and benefits are not warranted. Combining the programs should include harmonizing the benefits so that all trade-dislocated secondary workers are covered, as well as all workers whose factories have moved to another country. In addition, all workers should be eligible for TAA income support and training waivers should be available for good cause.

Second, the certification process could be speeded up so that workers become eligible for benefits as soon as possible after losing their jobs. Expanding the involvement of the states — which already play a role in the Nafta-TAA program — would help.

Among other changes, the program should move to a voucher system as a means of providing training to eligible workers and introduce a certification program to identify legitimate training providers — especially community colleges — and eliminate diploma mills.

As Congress considers the renewal of trade adjustment assistance, it should be aware that the program is a key element in the nation's trade agenda in the period ahead. Without an effective program, trade policy's victims will make it increasingly difficult for the United States to reap the benefits of expanding exports to new world markets.

Mr. Samuel, a senior fellow at the Economic Strategy Institute, during the 1970s headed the Department of Labor's International Affairs Bureau, which administered the TAA program.

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Call to cut trade impact on jobless

By Nancy Dunne
In Washington

The US should extend training and assistance to workers who lose their jobs as an indirect result of lost business through cheap imports, according to a report released yesterday by the Washington-based Economic Strategy Institute.

In a report, the ESI urges swifter action and enlarging the scope of assistance for the newly unemployed to include "secondary workers".

The report predicts increased worker displacement this year as the US market is flooded by imports in the wake of the Asian currency crisis. US exports already have begun to fall as prices rise steeply in foreign markets.

"Without some kind of programme it will be hard to pass fast track [negotiating authority] or any other kind of trade agreement," according to Howard Samuel, an author of the report and former senior official at the AFL-CIO, the umbrella organisation for US unions.

Although the Republican-controlled Congress has been unenthusiastic about trade initiatives this year, the House has passed Africa trade legislation and the Senate is likely to take it up.

In addition, two federal trade adjustment programmes are due to expire this year. They are likely to be reauthorised – or at least extended as it is an election year and congressmen are unlikely to stand by and watch imports soar or companies move production overseas without extending help to laid off workers.

ESI suggests merging the two programmes. One, designed for the North American Free Trade Agreement, is for workers who have lost jobs because of imports or as a result of companies moving to Canada and Mexico. The other is a larger scheme for jobs lost due to trade.

In 1997 the programmes provided training to 150,000 unemployed at a cost of $300m – $120m for training and the rest for income support.

Over the years there have been shifts in the geographical and industrial composition of trade and its impact on workers. In the 1960s and 1970s the largest number of workers receiving benefits lost jobs in the steel or automotive industries in the north and midwest. Since the early 1990s, most workers have come from the clothing and textile industries in the south or southeast.

Other workers come from industries making electrical and transportation equipment, computers, medical equipment, fabricated metal products and producing oil and gas.

The Washington Post

TUESDAY, MARCH 31, 1998

Greg Mastel

The Dumping Ground

The North American Free Trade Agreement, or NAFTA, sparked a heated debate in Congress and attracted great public attention. In reality, however, economic studies indicate the NAFTA has had little effect on the lives of most Americans. In sharp contrast to the NAFTA debate, in a few months, with little or no public notice, U.S. trade officials will begin implementing a seemingly technical change in U.S. trade laws—"sunset reviews of antidumping decisions." Ironically, this "technical change" in antidumping laws could have an impact on more than $100 billion in trade and tens of thousands of U.S. jobs and adversely affect the lives of far more Americans than the NAFTA.

Antidumping laws seek to establish a level playing field between imported and domestically produced goods. Specifically, antidumping laws impose duties on imported goods that are sold either below their cost of production or below their price in their home market to bring their price to fair levels.

This technical description, however, does not do justice to the larger purpose of U.S. antidumping laws. Although far from being a textbook example of free trade in action, the United States is one of the most open markets in the world. On the whole, U.S. trade barriers are quite low. The same cannot be said for many of the United States' major trading partners. The often-subtle barriers that Japan has used to keep large portions of its market closed to imports are well known. Many other Asian countries—notably, South Korea—have imitated Japan's example. China has made great steps toward adopting market reforms but remains a partially nonmarket economy with state-owned enterprises, trade barriers and government economic planning still much in evidence.

As the Asian economic crisis demonstrated, the combination of protected home markets, government-directed financing and government ownership of industries has encouraged the gross overbuilding of production capacity in manufacturing industries from semiconductors to steel. One of the most important, but little recognized, negative economic effects of this overbuilding is that companies in the region, with a secure home market, easily available capital, and spurred on by their governments to export, are often willing to sell in foreign markets at prices well below fair value. As the world's most lucrative market, the United States is a leading destination for these dumped exports. With direct and tacit support from their governments, companies from Japan, Korea, Brazil, China and Russia—to name but a few—dump a wide range of products in the U.S. market.

These dumped products often provide consumers with some transient advantage through lower prices, but they have a devastating impact upon the domestic companies that compete with these unfairly priced products. The U.S. semiconductor industry in the mid-1980s is an excellent case in point. Because of heavy Japanese dumping in 1986 of basic memory chips known as DRAMs, all but two U.S. companies were forced to halt DRAM production. Japanese dumping had also begun to drive U.S. companies out of the next generation of semiconductors. U.S. action to halt dumping saved the U.S. industry from possible extinction, and today, the U.S. semiconductor industry sets the standard for the world.

Without antidumping laws, the story might have been far different. The threat of dumping by Japanese and now South Korean and Taiwanese firms continues to this day. Without antidumping laws, it is possible the United States would have lost one of the crown jewels of its economy and all of the jobs, technology and economic activity that it supports. In cases such as this—which are all too common—antidumping laws are a vital safeguard to keep the open U.S. economy from being devastated by the mercantilist policies of some of its trading partners.

Despite this vital purpose, in the most recent round of international trade negotiations, a sunset review provision was agreed upon. It aimed at terminating many antidumping actions after five years. In some cases, these reviews make a certain amount of sense, but the reality is that dumping is merely a symptom of foreign mercantilist policies. As such, dumping is the virtually inevitable result of protected foreign markets, foreign subsidies and other forms of mercantilism. Sadly, in Korea, China, Japan and a number of other countries, these policies are still very much in evidence, and the temptation to dump is often so great that foreign companies have chosen to actually intensify dumping for years and even decades after antidumping duties have been imposed to ensure that they can continue to make sales. Under these conditions, eliminating antidumping duties will only expose U.S. workers, U.S. companies and the U.S. economy to renewed economic injury.

If U.S. authorities remove all or most antidumping duties simply because they have been in place for five years, the results could be devastating for the U.S. industries and their workers. Literally tens of billions of dollars in trade and tens of thousands of jobs are at stake, but somehow antidumping sunset reviews have proceeded unnoticed while the NAFTA still makes headlines. Particularly, as the antidumping sunset reviews begin this summer, it behooves all Americans to take notice. Otherwise they may learn that what they don't know can hurt them.

The writer is vice president and director of studies at the Economic Strategy Institute.

BY OHLSSON

The Journal of Commerce

WEDNESDAY APRIL 15, 1998

Two perspectives on US anti-dumping laws

No, they just protect US jobs

BY GREG MASTEL

The Asian economic crisis seems to be receding or in a temporary pause. As Asia begins its recovery, however, U.S. exports to Asia will decline and imports increase.

And given how weak Japan's import appetite is likely to be, a wave of Asian imports likely will be headed for the U.S. market, widen the U.S. trade deficit with Asia and force layoffs in industries that compete with Asian companies.

Aware of these emerging problems, the Clinton administration pledged to vigorously enforce U.S. anti-dumping laws. These laws provide a critical U.S. safeguard against Asian economic problems.

The immediate effect of Asian imports on U.S. anti- dumping action is somewhat uncertain. U.S. producers will find it easier to show injury given rising import volumes.

To win an anti-dumping order, however, U.S. companies must show injury and, more important, that imports are being dumped or sold at less than fair value. Given dramatic devaluations, Thai, Indonesian, and South Korean companies initially may sell in the U.S. market without sharply cutting prices.

In order to maintain U.S. market shares, however, companies from the likes of China, Taiwan, Brazil and Russia not dramatically affected by the Asian crisis may dump their products to maintain sales. Thus, U.S. anti-dumping actions likely will rise with Asian imports.

Some argue eroneously that Washington should not enforce U.S. anti-dumping laws — either because the nation should absorb imports to help the world economy or because it should focus on exports rather than imports.

Since anti-dumping laws are not discretionary and must be enforced, however, this is largely an empty debate.

Furthermore, while the United States should refrain from undue protectionist measures in the face of rising Asian imports, anti-dumping laws are not protectionist. They simply bar foreign companies from engaging in cutthroat pricing.

The United States need not apologize for demanding that foreign companies obey U.S. laws and internationally accepted standards.

The argument for targeting exports and not imports ignores the fact that declining export opportunities and growing imports are two sides of the same coin — both driven by the dramatic currency devaluations and slumping economies at home.

The major causes of Asia's crisis are mercantilist trade strategies that build production capacity regardless of demand while systematically promoting exports and restricting imports.

Japan pioneered this strategy, but others like China and South Korea developed their own versions. This has inflated manufacturing capacity in steel, semiconductors, automobiles and elsewhere. It has also caused many Asian economies to collapse when a target industry hits a downturn or export opportunities do not develop.

One of the other less widely recognized effects of these national strategies is widespread dumping into the generally open and lucrative U.S. market. Backed by a protected home market and government-directed credit, many companies willingly slash prices to increase market share and depress profits of their U.S. competitors.

In fact, dumping is not just a side effect of foreign mercantilism but an integral element and key tactic for building export sales.

The United States has built a vibrant, growing economy that is the envy of the world. As long as other economies pursue a mercantilist, dumping strategy, anti-dumping laws will remain a critical U.S. safeguard. Otherwise, the mercantilist strategies will hinder the prospects for sustainable economic growth in its practitioners and ensure that the U.S. economy sees dumping-related manufacturing layoffs and plant closings.

The Asian economic crisis is evidence the U.S. economic strategy is sound. This nation should not expose itself to the ravages of mercantilism by weakening its anti-dumping laws.

Greg Mastel is vice president and director of studies at the Economic Strategy Institute and author of the forthcoming "Antidumping Laws and the U.S. Economy" (M.E. Sharpe, 1998).

Fort Worth Star-Telegram

OPINIONS

August 25, 1997

White House's encryption policy threatens U.S. jobs

Erik R. Olbeter and Christopher Hamilton

WASHINGTON — Internet users thought they could breathe a sigh of relief when the Supreme Court recently struck down the Communications Decency Act, the law that restricted a wide range of online speech.

However, another threat to the Internet continues and could make the decency legislation seem like a minor annoyance.

At issue is the continuing attempt by the Clinton administration and its allies on Capitol Hill to restrict the export of encryption technologies.

These technologies scramble data so that only those having the appropriate mathematical "key" can decipher the message.

For protection, companies have been developing high-bit codes (the higher the bit number, the more difficult it is to break the encryption) in order to ensure privacy and security.

The linchpin of electronic commerce, encryption holds enormous importance for anyone who sends business documents via E-mail or uses a credit card to buy goods online.

Washington, however, fears that the spread of potentially unbreakable codes will weaken law enforcement efforts against drug lords and terrorists who use encryption to hide illegal activities.

The Clinton administration not only wants to restrict the use of advanced encryption but insists that companies seeking an export license give the "key" to a "trusted third party." The third party would turn the key over to authorized law enforcement agencies in case it is needed in a criminal investigation.

Basic logic dictates, however, that any terrorist worthy of the name knows that to elude American law enforcement, all he need do is use an encryption program made in another country.

Further, many in the cryptography field have said the "trusted third party" system may actually increase the possibility of security leaks.

The Commerce Department recently permitted some companies, including Microsoft and Netscape, to export encryption up to 128-bit strength — but only in some cases.

That's the rub. The buyers must be international financial service companies. Given that banks must keep records of these transactions anyway, the exemption is not as significant as it first seems.

For a majority of overseas sales, U.S. companies may still export only the much weaker 56-bit code, already cracked by hackers participating in a joint effort over the Internet.

Companies that get a 56-bit export license from the Commerce Department must pledge to develop mechanisms to give law enforcement key access within two years.

On Capitol Hill, meanwhile, the administration's allies are circulating legislative proposals that would codify the export limit to 56-bit strength encryption.

These proposal would empower a control board of industry and government supervisors to allow export of stronger encryption when there is evidence of "similar strength" already available abroad.

But sounding a warning of just how technologically shortsighted Washington can be, the same day the Senate Commerce Committee voted to restrict American exports to this length, those hackers broke the 56-bit code, rendering it useless.

As for the "similar strength" standard, there is already clear proof that a number of firms abroad sell more powerful encryption technology. One has even been even profiled in *The New York Times*.

Along with the technical and market myopia, these restrictions on U.S. encryption exports will cost Americans jobs. In direct response to current U.S. export controls, encryption software producers in Germany, New Zealand and Switzerland have been enjoying tremendous success in selling their wares to U.S. companies operating in Europe.

So, ironically, although U.S. companies produce the world's best encryption software, they have to buy encryption from their competitors in order to sell overseas.

Over time, these restrictions will relegate American software producers to a "follower" position in the international marketplace.

Foreign competitors will gain the highly important initial sales in overseas markets, while U.S. companies will be forced to wait for a lethargic U.S. bureaucracy to decide whethe they can offer competing products.

These encryption controls affect more than just software companies. Computer and communications equipment manufacturers will also feel the bite of shortsighted export controls.

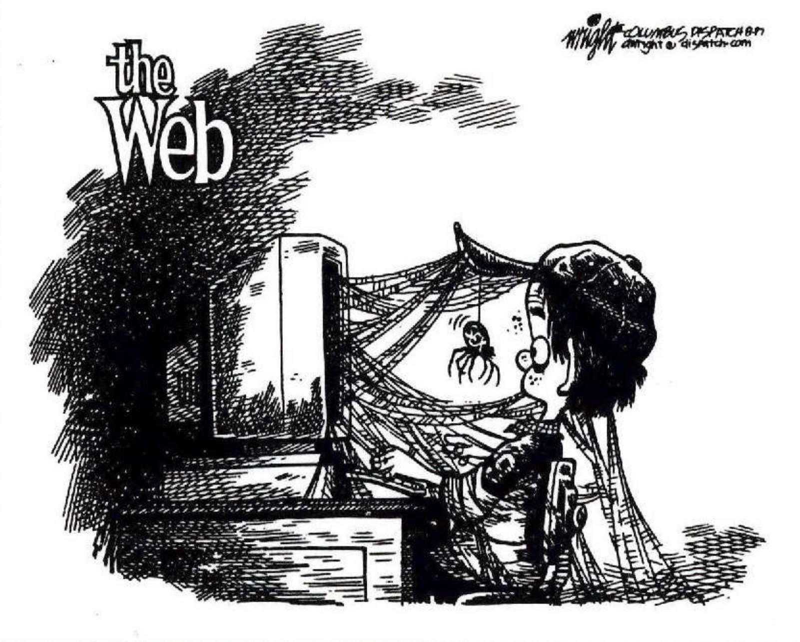
Because encryption is used in other products, such as cellular phones, several companies are investigating moving production overseas in order to build in the strong encryption that global markets demand — and without the "key recovery" mechanisms they reject.

Given the ultracompetitive nature of equipment markets, thousands of manufacturing jobs could be exported to countries with less restrictive encryption export policies.

Continued encryption control is a lose-lose scenario. Not only will it prove useless in pursuing criminals, but it also threatens to sacrifice U.S. software and manufacturing jobs.

In short, encryption controls for national security will serve only to make the nation less secure.

ERIK R. OLBETER is director of the Economic Strategy Institute's Advanced Telecom and Information Technology Program, and CHRISTOPHER HAMILTON is a research assistant. This column was distributed by Knight-Ridder/Tribune.



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BUSINESS

THURSDAY
.. APRIL 2, 1998

'The encryption issue so far has been played as a software issue, but this report shows this is much broader.'

— *Erik R. Olbeter, Economic Strategy Institute*

Encryption curbs cost U.S. billions, study says

BY RORY J. O'CONNOR
Mercury News Washington Bureau

WASHINGTON — The U.S. economy could lose at least $35 billion over the next five years if the government continues its export restrictions on data-scrambling technology, according to a think-tank study released Wednesday.

Urging the government to abandon its current policies on encryption, the Economic Strategy Institute calculated billions in losses to the software industry and the national economy at large. It said those losses could be as much as $96 billion.

The report also concludes that current policies fail to serve the national security interests they ostensibly are intended to protect, noting that criminals and terrorists who want to use the strongest encryption to hide their activities already can obtain it easily.

That bolsters the high-tech industry's case in its five-year battle with the government over technology used to scramble the transmission and storage of digital data on everything from the telephone system to the Internet.

"The encryption issue so far has been played as a software issue, but this report shows this is much broader," said Erik R. Olbeter, director of the institute's Advanced Telecom and Information Technology Program and the report's main author.

See ENCRYPTION, Page 4C

Encryption curbs cost U.S. billions, study says

■ ENCRYPTION

from Page 1C

"This affects industries that have generated much of the increase in wealth in the past 10 years . . . and things that are key and instrumental to the next 20 years of growth."

The report is the first systematic calculation by an organization not directly connected to the high-tech industry of the cost of the controversial encryption policies. In that respect, it was cheered by opponents of the government's policy, which restricts the export of most encryption technology to relatively weak versions.

"For a long time, the government insisted that industry hasn't been able to prove any economic loss from export controls," said Lynn McNulty, director of government affairs for RSA Data Security Inc. of Fremont, a leading maker of encryption software.

McNulty, who formerly oversaw computer security policy for the Commerce Department's National Institute of Standards and Technology, called the report "one of the missing links" in the policy dispute.

The report was criticized by the government official overseeing the policy, in part for what he called "exaggeration" of its figures and for failing to propose a workable policy alternative.

"My biggest frustration is, they offer absolutely nothing as a constructive alternative, and that severely weakens it in my view," said William Reinsch, undersecretary of commerce and head of the Bureau of Export Administration. "I'm sure it will add fuel to the fire the other side is trying to start."

Olbeter acknowledged that he and co-author Christopher Hamilton didn't have a replacement policy to offer, saying that they chose to examine the economic impact, while constructing a policy involves complicated legal and political questions as well.

While not offering a specific proposal, the report suggests that any such policy meet a four-point test, including being technology neutral, market-driven and protective of individual and corporate privacy.

The 94-page report, "Finding the Key: Reconciling National and Economic Security Interests in Cryptography Policy," concludes that the most significant losses accrue from so-called "spillover" to the general economy. In the extreme, the ripple effect of current government encryption policies, estimated at $51.62 billion between now and 2002, is 50 percent larger than the direct losses to high-tech industries.

Encryption losses

Federal restrictions on export or domestic use of strong data-scrambling technology could cost the economy billions of dollars in lost business over the next five years, according to a study by a conservative economic research organization.

Category	Minimum estimated loss (in billions)	Maximum estimated loss (in billions)
Indirect economic effects	$17.56	$51.62
Forgone cost savings/efficiency gains from computer networks not installed	4.41	10.94
Foreign software firms' capture of U.S. worldwide encryption software market share	1.78	8.90
Lost sales of networking equipment	4.31	8.01
Lost online sales	2.38	7.10
Migration of wireless device and system production overseas	1.77	3.77
Foreign capture of other U.S. worldwide software market share	1.17	3.31
Lost sales of Internet/ online service providers	1.78	2.28
Total 1998 through 2002	**$35.16 billion**	**$95.93 billion**

Source: Economic Strategy Institute

CLEVELAND NETHERLAND — MERCURY NEWS

The report also concludes that current policies fail to serve the national security interests they ostensibly are intended to protect.

The encryption battle has raged since 1993. The administration, spearheaded by the FBI and the National Security Agency, tightly controls the export of data-scrambling technology on national security grounds. They reason that the widespread availability of coding schemes they can't break will let criminals and terrorists plot their actions while evading surveillance.

The administration is also attempting to create an encryption regime that relies on secret keys with copies held by third parties and made available to government agents upon presentation of a court order.

The computer industry, joined by privacy advocates and civil libertarians, has long advocated no controls on encryption. They say powerful encryption will minimize potential computer crimes, and that foreign companies are offering products that U.S. companies are not permitted to sell abroad.

The Washington Times

WASHINGTON, D.C., FRIDAY, MAY 1, 1998 ★★

SCOTT GIBSON

Fixing prices . . . or protecting flyers?

In yet a further example classic Inside the Beltway think — "I'm from the government and I'm here to help" — the Department of Transportation (DOT) claims it wants to enhance airline competition by preventing anticompetitive or predatory practices. However, as is too often the case, the newly proposed rules, which would go into effect right before the busy holiday travel season, would severely restrict the pricing freedom of carriers facing new competition in their markets and amounts to creeping re-regulation.

Such misguided policy is perplexing, given that DOT has encouraged industry consolidation, through the approval of mergers and alliances, citing consumer benefit in the form of choice and lower prices. Moreover, it has not taken a single enforcement action against the predatory behavior it now claims is abundant. In fact, a high-ranking DOT official recently testified before the Senate that, while he was certain predatory behavior exists, he could not offer an example where there is enough evidence to support a case.

Those remarks seem reminiscent of Justice Potter Stewart's famous assertion that, although he couldn't define pornography, he knew it when he saw it.

A test case offered in its proposal illustrates how little DOT understands market realities. Using a hypothetical case — in which an incumbent airline, challenged by a new entrant with lower prices, fails to match those lower fares — DOT ignores proven market realities and suggests the incumbent will sustain only minimal losses of revenue.

In fact, the incumbent airline risks losing its revenue base altogether if it fails to match the lower prices, an option that would force established carriers out of their traditional markets. Lower prices may mean lower overall revenue levels, but they at least preserve the airline's position in a tenuous market.

DOT, however, views movement in that direction as an effort to damage the prospects of new entrants and thus it proposes to limit the ability of incumbent carriers to lower prices. Consequently, a response designed to maximize revenue in a changed competitive paradigm is being misconstrued by DOT as anticompetitive behavior.

Using the hypothetical case as its rationale, DOT proposes enforcement action when an incumbent's effort to match lower prices "results in lower revenue [for that incumbent] than would a reasonable alternative response." Apparently, DOT will determine what constitutes a "reasonable" competitive response.

It seems presumptuous for government to believe not only that it can spot predatory behavior in the absence of any evidence, but also that it might know better than airline management how to price airline seats. After all, government originally stopped regulating entry and prices within the airline industry because it decided that business knows best how to compete.

In actual experience, the record demonstrates that deregulation has greatly benefited the consumer, through increased competition and lower prices. The Economic Strategy Institute recently reviewed 20 years of airline deregulation and found that prices consistently fell throughout the period, and that most cities are served by more airlines today than ever before. Despite consolidation in the industry, far fewer routes are served by only one carrier than was the case 20 years ago, and competition continues to increase.

Considering that commendable record, what could DOT be trying to accomplish with its new regulations?

When Congress deregulated the airline industry, it made DOT responsible for enforcing antitrust laws within the industry. Yet, DOT has not prosecuted one case of anticompetitive behavior, despite a legal mandate that has worked quite well for the Justice Department. One is left to conclude, therefore, either that no predatory behavior exists, or that DOT is incapable of enforcing the law and, therefore, is resorting to oldtime regulatory remedies.

The latter seems more likely. DOT, lacking expertise in antitrust enforcement, is deferring a judicial ruling on airline behavior and instead, drafting rules of engagement that its bureaucrats, left over from the days of regulation, can understand and use to modify industry competition.

DOT's new regulations will serve only to erect a protectionist shield around new entrants and limit the competitive dynamics of the market right before the busy holiday season by pressuring incumbents no to compete on price. It's a clear-cut case of bad theory turned into a disastrous policy that can only result in higher prices and less choice for consumers — the same folks DOT is trying to help in the first place.

Scott C. Gibson, a former senior airline executive with Continental and TWA, is a visiting fellow at the Economic Strategy Institute.

AVIATION WEEK & SPACE TECHNOLOGY

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VIEWPOINT

Scott C. Gibson, a former Trans World Airlines senior executive, is a visiting fellow at the Economic Strategy Institute in Washington. This article was adapted from a presentation he made at the institute.

Allow Global Mergers So Airlines Can Grow

During the past decade, the international, bilateral aviation regime of bygone days began to collapse, undermined by a new system of cost-and-revenue economics driven by U.S. hub carriers. The Europeans reacted to this change by sharply restricting American aviation services, in order to provide themselves time for realignment.

Before the emergence of today's environment, characterized by code-sharing and alliances, single-carrier networks were the rule. Because U.S. carriers enjoyed extensive rights to international routes, they were able to create small hubs overseas. Most Asian and European airlines had established extensive networks, usually centered in a single major city, but they had not yet "hubbed" their operations, scheduling flights to create connections.

In the 1990s, however, the world began to change. Once they started hubbing, European operators were able to combine multiple traffic flows to which U.S. carriers simply did not have access. As a result, U.S. carriers have been retreating from their offshore hubs.

Many U.S. carriers had sought to build global networks through the expansion of core operations overseas. What they failed to do, however, was persuade the U.S. government to shift the focus of its negotiations in that direction. With that path blocked, the only alternative for American companies has been the system of alliances with their European competitors.

Given the missed opportunity to build overseas hubs, and the current economic environment, it seems appropriate to ask where the industry should now be headed.

If revenue leverage is to be gained, it ultimately will have to come from the creation of a common brand name, the unification of frequent-flier programs and a yield management system that controls all networks within an alliance as if they were one. This type of tradeoff is extremely difficult when various corporations in a common alliance have fundamentally divergent interests (e.g., control of decision-making, maximization of home-country profits, employment and spending). Nevertheless, if the aviation industry is going to continue growing, it must evolve into a true market entity. If both cost and revenue efficiencies are to be achieved, there must be single-source decision-making by single corporate entities.

Even a surface examination of the issue reveals that global consolidation is vital if U.S. airline companies are to remain financially viable and dominant in the international marketplace. Unfortunately, the current bilateral aviation environment, in which the citizenship of the airline operator forms a sort of national identity, seems to preclude movement toward cross-border ownership consolidation.

The issue of sovereignty already is beginning to ebb. National airlines have been going out of business rapidly and will continue to do so. It will take a major shift in mindset, but—even as Kansas City learned it can thrive without a local airline hub—many nations will come to learn they are better off having frequent service offered by several airlines than paying for an inefficient flag carrier through higher prices, frequently poor service and large subsidies. The British, Canadians, Dutch, Germans and Scandinavians already are moving in this direction.

Once North America and Europe agree to relax ownership barriers, agreements with each nation could be negotiated, removing barriers to ownership and entry, and clearing the way for the industry to consolidate globally. Given the importance of the U.S. and European markets, there likely will be few national holdouts from such an aviation regime.

Of course, such shifts in ownership are likely to worry organized labor, even though such concerns have no ground in reality. Flights within each nation would still have to be operated by home-country nationals, just as the auto plant in Thailand uses Thai workers instead of American or Japanese. Flights between nations would be operated much as they are today, using many nationalities in a cost-effective manner. While there will be job losses in certain locations, industry globalization eventually will lower costs, reduce prices, increase demand and create more jobs.

With all this said, what is needed for the industry to move forward? A good start would be to have a few more airline CEOs follow the leads of Bob Ayling and Bob Crandall and speak up about ownership and control issues that make sense for their companies in this new global era.

Chicago Tribune
Wednesday, April 1, 1998

Study says airline industry more competitive than ever

By John Schmeltzer
TRIBUNE STAFF WRITER

Despite charges that airline deregulation isn't working and that some major airlines are unfairly cutting prices, a new study released on the eve of hearings by the antitrust subcommittee of the Senate Judiciary Committee shows there is more competition today than at any other time.

And the study downplays the significance in the marketplace of the anti-competitive practice called predatory pricing designed to push start-up carriers out of the skies.

"Clearly there are some people who pay more for an airline ticket than they did 20 years ago, but most people pay much less," said Scott Gibson, a research fellow with the Economic Strategy Institute, a Washington-based, business-funded think tank, and author of the study.

Gibson said the lack of facilities is the biggest issue preventing more new airlines from entering the skies.

The study is one of several begun five years ago by the think tank when many of the nation's oldest airlines were failing.

Funding for the institute is drawn from major corporations around the country, including four major airlines—Elk Grove Township-based United, Ft. Worth-based American, Northwest in Minneapolis and Trans World Airlines in St. Louis.

But Paul Dempsey, a professor of aviation at the University of Denver and the vice chairman of Frontier Airlines, says that he doesn't agree with Gibson's conclusion.

"The view that all is well and competition is thriving is not universally shared," Dempsey said.

Frontier last year filed a complaint with the Departments of Justice and Transportation accusing United of unfairly dumping hundreds of low-priced seats in 1996 in markets where United competes with Frontier.

The Transportation Department is expected to issue on Monday guidelines spelling out the rules of competition that will give start-ups more pricing protection.

Gibson, however, said the numbers show there is more competition than ever before.

Only 10 percent of the nation's airline passengers didn't have a choice in what airline to take in 1996, compared with nearly 30 percent not having a choice in 1978, when the government began deregulating the airline industry.

During that same period, Gibson said airline ticket prices have declined 37 percent.

Even in Chicago, where flights into O'Hare International Airport are strictly limited, competition has increased, the study says. Now 30 airlines are competing in Chicago, compared with 21 when deregulation was begun.

Clyde Prestowitz

George Soros – Global Players

– Interesting to look at history

Let me look at 4 points

African week
in Geneva – 15 countries

When [illegible] had to decide
on IMF commitment

G.7. 98 – Debt ministers
& developing countries

New look today and in [illegible]

China –
Japan

Africa

Latin America

Financial system – More [illegible] takes more
than money –
Requires good agreement – systems
and judgement

Confidence is key

Particularly from the view of Developing countries
now 18% of world GDP

But [illegible]

Need more complete work
There have been crises –
Good governance can help –

Speaking Points for: "Global Finance and Global Players: Getting the International System Back on Track"

James D. Wolfensohn, President
The World Bank

Remarks to the Economic Strategy Institute

May 6, 1998
Washington, D. C.

In the last decades we have witnessed some remarkable events. Private capital flows to developing countries have risen strongly: from $42 billion in 1990 to $256 billion last year. At the same time, we have seen some large crises: Mexico in 1994-95 and East Asia today. Put in historical perspective, neither the surges in capital flows nor the recent crises are unprecedented. The last two centuries offer spectacular examples of both. In many ways, having international institutions like the World Bank and the International Monetary Fund, and internationally-oriented countries that do not close their doors at the first signs of trouble, have made it possible to recover more quickly from these crises.

But the economic and social costs are still enormous and reason enough for the international dialogue on designing better institutions and policies. Building an international financial architecture while ignoring the social and development foundations is like erecting a house on sand: It will not last. Our financial policies will not be sustainable if we ignore the 1.3 billion people living in poverty.

In my remarks today, I would like to put the current troubles of Asia in historical context. I would also like to put them in the context of the larger development challenges we still face.

Surveillance — Transparency
Bank Accords — Banking Systems and Private Sector
Private Sector
→ Banking systems Capital Flows

THE 4 WAVES OF PRIVATE CAPITAL FLOWS

THE FIRST WAVE: 1870-1914

From the United Kingdom to the major emerging markets: the United States, Canada, Australia, Argentina, and Brazil.

The flows funded up to half of domestic investment.

THE SECOND WAVE: the 1920s

From New York to Latin America and Southern and Eastern Europe.

The second wave ended with the "debt crisis" of the 1930s: the default of almost every Latin American country, Poland, Germany and others.

Countries responded by turning inward, erecting protectionist barriers.

Substantial private flows to developing countries did not resume for 40 years.

THE MARSHALL PLAN

Multinational Companies

After World War II there were no private flows.

Marshall Plan provided $12 billion, which was 1.2 percent of American GDP (compared to 0.1 percent of GDP for the U.S. aid budget today).

Development of the Euro Market

THE THIRD WAVE: 1970s - 1982

Oil price shock created supply of funds (petrodollars) and demand for funds (countries with increased import bills).

80 percent of the private flows were in the form of debt, and 80 percent of these went to the public sector.

20 percent of private flows in the form of foreign direct investment.

The third wave ended with Mexico in 1982, followed by serious debt problems for more than 40 other countries in Latin America and Africa.

Lending to developing countries slowed to a trickle for almost a decade.

10 year Hiatus

THE FOURTH WAVE IS DIFFERENT

THE FOURTH WAVE: 1990-1997

Russia's end? Cold war

Began in 1990 with the recovery of loans to developing countries at the same time as the large expansion of foreign direct investment and the advent of portfolio equity.

Role of Multilaterals & Bilaterals

Net long-term private capital flows to developing countries reached $256 billion in 1997 – more than 6 times the $42 billion level in 1990.

Over that same period, official flows have drifted down from $56 billion to $44 billion.

4.7 Bill
5.6 Bill

Dwarfed vs Dwindling

Fund from OECD

→ Turn in Economies

BROAD-BASED EXPANSION

Not an adjustment to a temporary shock, but a broad-based expansion in profitable investment opportunities abroad.

$120 billion in foreign direct investment (50 percent of total).

$103 billion in loans and bond issues (40 percent of total). At 1.7 percent of developing country GDP, this is exactly where they were in 1981.

$32 billion in portfolio equity (10 percent of total).

SHOULD BE PUT IN PERSPECTIVE

Still, capital flows fund only one-sixth of developing country investment, with the rest of the funding coming from the $1.4 trillion saved by developing countries.

THE COMPOSITION MAKES THE FLOWS MORE ROBUST

Loans are risky because they do not share risks: If a country does well, then repaying its loans is not very difficult. In contrast, the highly indebted poor countries suffer from the double burden of poor economic performance and excessive difficulties in repaying their loans.

The chance that short-term loans will not be renewed leads to the risk that a crisis of liquidity will turn into a crisis of solvency.

Equity investments share risks, although they have the risk of a sudden withdrawal.

FDI brings not just capital, but also knowledge and access to foreign markets. It is more stable: investors do not pull their factories out of a country at the push of a button.

SUMMARY: GLOBAL INSTITUTIONS HAVE REDUCED RISKS

The debt crisis of the 1930s stopped developing country access to international capital for 40 years, in part because of the isolationist responses it triggered.

The debt crisis of the 1980s stopped developing country access to international capital markets for almost 10 years.

Present indications are that the current crisis may have interrupted access for only 4 months. (New lending, and bond and equity issues to developing countries slowed to a trickle from November through February, especially in Latin America. The preliminary indications from March and April suggest that, outside the crisis countries in East Asia, they may have returned to earlier rates.)

Also emerging Action by the IMF → stabilization + financing — Restoration of confidence

OFFICIAL FLOWS CONTINUE TO BE IMPORTANT

Private flows are 6 times greater than overseas development assistance and loans from official sources.

> *Sectors*. Very little capital goes to certain *sectors* like health and education. Also, although much private capital goes to infrastructure, for instance, very little of it goes to roads, and still less to rural roads.
>
> *Instruments*. Many developing countries having relatively little access to long-term debt finance.
>
> *Uneven across countries*.
>
> > A dozen countries, representing half of the developing world's GDP, have received 75 percent of the funds.
> >
> > Only a handful of low-income countries have received significant amounts relative to the size of their economies.
> >
> > Sub-Saharan Africa got only $8 billion of the $256 billion in private money, 3 percent of the total. Much of this went to South Africa.
> >
> > 140 countries get less than 5 percent of the private capital flows.
>
> *Uneven across time*. Countries tend to get the most foreign capital when they are doing well and in least need of it. When they are doing badly – even when the problem is clearly temporary – the private capital flows often dry up.
>
> > e.g. Korea and Thailand were growing strongly, saving over one-third of GDP, and attracting large capital inflows that were adding relatively little to their growth. Now that they are in greater need of foreign capital, they have a harder time attracting it.

Official assistance and loans can complement private investment by making countries more productive and easing them through bad times.

THE REAL COST OF FINANCIAL CRISES

CRISES ARE INCREASINGLY FREQUENT

In the last decade, Scandinavia (Finland, Norway, and Sweden).

Savings and loan crisis in the United States.

More than 50 other banking crises in the developed and developing world in the last two decades.

THEY CAN BE OF VERY LARGE MAGNITUDES

The Indonesian Rupiah has fallen 70 percent since July.

The currencies in Thailand, Malaysia, the Philippines, and Korea have all fallen by about a third in this period.

The currency crises have triggered banking crises in many of these countries.

Banking crises are expensive to resolve. The record is Argentina, which spent more than 50 percent of its GDP resolving its 1980-82 banking crisis.

FINANCIAL RECOVERY, BUT REAL EFFECTS PERSIST

Thailand is the best emerging stock market in 1998 (up 36 percent in U.S. dollar terms) and Korea is a close second (up 27 percent).

Prior to the crisis, the Korean unemployment rate was hovering around 2 percent. Since then it has more than tripled, rising to 6.5 percent in March. Over 1 million people have lost their jobs and the unemployment rate is now the highest ever recorded in Korea.

Indonesia

5 million Indonesians may have lost their jobs due to the combined effects of the financial crisis and the drought.

The poverty rate, which had come down from 64 percent in 1975 to 11 percent in 1995, could rise up to as much as high as 20 percent. That is another 18 million people who could be in poverty.

Another 40 million people are hanging precariously just above the poverty line.

Brazil Out

Financial collapse and recovery:

Stock market was down 40 percent.

Spread on international loans rose from 186 basis points to 527 basis points.

Domestic interest rates jumped up 29 percentage points.

Gross international capital flows, other than FDI, virtually halted.

In the last few months, interest rates have come down, the stock market has gone up, and capital flows have resumed strongly.

Continued effects on people:

The unemployment rate has risen for three straight months, hitting 8.2 percent in March, compared to 4.8 percent in December 1997. This is the highest rate in Brazil since they began collecting the statistics a decade ago. This is 2½ million people losing their jobs.

Average effects. Research by the World Bank has found that in developing countries, 5 years after a financial crisis gross domestic product is 7 percent lower on average than it would have been without a crisis.

Long lasting effects on poverty. Higher unemployment and slower growth have even longer lasting effects on poverty. When people lose their jobs for extended periods, they lose some of their skills and their connection to the workforce. They feel more marginalized and excluded from society. These problems can be difficult to reverse. A bout of high unemployment can translate into lower productivity, sustained higher unemployment, and greater social problems for very long periods of time.

PREVENTING AND MITIGATING CRISES

FLUCTUATIONS AND CRISES ARE INVEVITABLE, BUT WE CAN PREVENT AND MITIGATE THEM

Domestic reforms include greater information, better financial regulation, and improved corporate governance.

International reforms. There is much we can do at the international level to facilitate and complement these domestic reforms:

Information. Collect, standardize, and share. The IMF is taking the lead on this with its Special Data Dissemination Standard.

Standards in accounting, auditing, disclosure, asset valuation, bankruptcy, and corporate governance, like the Basle Committee's Core Principles. The Interim Committee called for these.

Risk Sharing. Too often we place all of the blame, and all of the exhortations for improvement, on the borrower. All loans require a willing borrower and willing lender. Greater responsibility is required by lenders. This will only occur if they bear the full share of the costs of their decisions. Ensuring this happens may require the development of risk-sharing institutions and practices at the international level.

PRINCIPLES FOR REFORM

Robustness. We have seen crises in transparent countries (e.g. Scandinavia) and in countries with a sophisticated regulatory apparatus (e.g. the United States). What we need are economic systems that are robust against a modicum of fallibility. Nuclear reactors are designed to withstand several simultaneous mistakes. To make economies that can only withstand one and then blame the country after it melts down is not a very good way to proceed.

Strengthening long-term flows, minimizing the risk of short-term flows

At the least, should not encourage short-term flows (like the Bangkok International Banking Facility).

May want to discourage them, while encouraging FDI and long-term flows.

MANY PLAYERS ARE REQUIRED TO GET THE SYSTEM BACK ON TRACK

CANNOT REFORM JUST THE FINANCIAL ARCHITECTURE

Development, in the broadest sense, complements other reforms.

WE FACE PRESSING LONG-TERM CHALLENGES

1.3 billion people live on less than $1 a day.

2.8 billion people live on less than $2 a day.

10 million children under the age of 5 die every year in developing countries. This is less than the roughly 20 million children under the age of 5 who died in 1962 (and with a population twice as large). But it is still too much.

1 billion adults cannot read.

In many Latin American countries the richest 20 percent of the population have 60 percent of the income and the bottom 20 percent have only 2 or 3 percent. The bottom 10 percent often have less than 1 percent of the total income.

WE MUST ENSURE THAT EVERYONE PARTICIPATES IN GROWTH, AND IS PROTECTED FROM THE WORST EFFECTS OF CRISES

THIS WILL REQUIRE GLOBAL PLAYERS: GOVERNMENTS, NGOs, CIVIL SOCIETY, ETC.

Additional Talking Points -
Background Inf.

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Capital Flows in Historical Perspective

- Private capital flows to developing countries have played an important role in development for more than a century. They have come in a series of 4 large waves, most of them ending in crisis with long-lasting effects.

- <u>The first wave</u> was from 1870 to 1914. Large capital flows from the United Kingdom, France, and Germany helped to build the railroads and canals in the major emerging markets of the time: the United States, Canada, Australia, Argentina, and Brazil. In many cases these capital flows funded up to half of the domestic investment in these countries. At the same time, they allowed European investors to realize much higher returns than they could have in their own, more "mature" economies.

- The second wave was in the 1920s and it emanated from New York, which was the center of a thriving bond market for developing countries, mostly in Latin America and Southern and Eastern Europe. This wave ended in the "debt crisis" of the 1930s, which included major defaults by almost every Latin American country, as well as Germany, Poland, and others. The countries of the world responded by turning inward and erecting protectionist barriers. Partly because of this response, it took more than four decades for the resumption of large-scale loans to developing countries.

- After World War II, private capital flows to developing countries (and countries in need of reconstruction) were limited to short-term trade credits and a trickle of foreign direct investment. This period, however, stands out as the most successful example of official capital flows in the history of the world. Between 1948 and 1951, the Marshall Plan transferred $12 billion, equivalent to 1.3 percent of American GDP, to 17 European countries (compare this to the United States current aid budget of 0.1 percent of GDP.) The reason the Marshall Plan was so successful is the combination of money and its encouragement of effective reconstruction policies in the countries of Europe. This is also, of course, the origin of the International Bank for Reconstruction and Development. With the success of the reconstruction efforts, our work has shifted to development, and more recently, facilitating the transition of the formerly Socialist countries. I can only hope that one day our success will put us out of these businesses also.

- The third wave began with the oil price shocks in the 1970s, which created a supply of petrodollars available at low interest rates at the same time that oil importing countries faced increased financing requirements. The result was the resumption of large-scale private loan flows to developing countries, a process that peaked in 1981. In that year 80 percent of the net private long-term capital flows to developing countries were in the form of debt (of which 80 percent was borrowing by the public sector) and 20 percent were in the form of foreign direct investment.

- This wave came to an end when in 1982 Mexico, having built up a large stock of short-term debt and run down its reserves, announced that it would not be able to meet its obligations. More than 40 other countries, mostly in Latin America and Africa, ran into severe debt problems in the following 4 years. Debt flows to developing countries slowed to a trickle for a decade.

The Recent Wave of Capital Flows is Different

- The fourth wave. We are currently living through another wave of private capital flows to developing countries. As a result, net long-term private capital flows to developing countries reached $256 billion in 1997 – more than 6 times the $42 billion level in 1990. Over that same period, official flows have drifted down from $56 billion to $44 billion.

- Even these impressive private flows should be put in perspective. They fund only one-sixth of developing country investment, with the rest of the funding coming from the $1.4 trillion saved by developing countries.

- The origins of the fourth wave are different from the origins of the wave of capital flows in the 1970s and early 1980s. This is not an adjustment to a temporary international shock but a genuine expansion in the opportunities for profitable and productive investment abroad.

- The composition is also different. Loans have risen in the 1990s, reaching 1.7 percent of developing country GDP in 1997 – exactly where they were in 1981. But more importantly, it is due to an unprecedented expansion of foreign direct investment and the advent of portfolio equity flows to developing countries.

- Of the $256 billion in net long-term private capital flows to developing countries in 1997, $120 billion was in foreign direct investment, $103 billion was in loans and bond issues, and $32 billion was in portfolio equity. [Or, roughly 50 percent was in FDI, 40 percent in loans, and 10 percent in portfolio equity.]

- The composition makes a big difference. Loans can be risky because they do not share the risks. If a country does well, then repaying its loans is not very difficult. In contrast, the highly indebted poor countries suffer from the double burden of poor economic performance and excessive difficulties in repaying their loans. This is especially true with short-term borrowing and more illiquid long-term loans. The chance that short-term loans will not be renewed leads to the risk that a crisis of liquidity will turn into a crisis of solvency.

- In contrast, equity investments offer a more straightforward device that shares risks – paying handsomely when the company can most afford it and paying much less when it cannot. Equity also brings additional risks, especially the sudden withdrawal of stocks.

- Even more important is the trend in foreign direct investment. FDI brings greater benefits than other forms of capital flows, including not just capital but also knowledge and access to foreign markets. It is also much more stable. Investors do not pull their factories out of a country at the push of a button.

- The debt crisis of the 1930s stopped developing country access to international capital for 40 years, in part because of the isolationist responses it triggered. The debt crisis of the 1980s stopped developing country access to international capital markets for almost 10 years. Present indications are that the current crisis may have interrupted access for only 4 months. Although it is too early to make confident predictions, new lending, and bond and equity issues to developing countries slowed to a trickle from November through February, especially in Latin America. The preliminary indications from March and April suggest that, outside the crisis countries in East Asia, they may have returned to earlier rates.

Continued Importance of Official Flows

- Although private flows are 6 times greater than official flows, official flows continue to be very important.

- Very little capital goes to certain *sectors* like health and education. Also, although much private capital goes to infrastructure, for instance, very little of it goes to roads, and still less to rural roads.

- There are significant gaps in instruments, with many developing countries having relatively little access to long-term debt finance.

- Private flows do not go to all countries:

  A dozen countries, representing half of the developing world's GDP, have received 75 percent of the funds.

  Only a handful of low-income countries have received significant amounts relative to the size of their economies.

  Sub-Saharan Africa got only $8 billion of the $256 billion in private money, 3 percent of the total. Much of this went to South Africa.

  140 countries get less than 5 percent of the private capital flows.

- The flows of private capital are not only uneven across countries, they are uneven within a single country at different points in time. Countries tend to get the most foreign capital when they are doing well and in least need of it. When they are doing badly – even when the problem is clearly temporary – the private capital flows often dry up. An extreme example is Korea and Thailand, which when growing strongly and maintaining national saving rates over one-third of GDP, were also attracting large capital inflows that may have added only marginally to their growth. Now that they are in greater need of foreign capital, they have a harder time attracting it.

- Official flows thus continue to play an important role. They fund sectors like health and education, they provide stable long-term finance, they provide money for countries that receive little foreign investment, and, as we are seeing in East Asia, they provide money to countries going through temporary crises. In all these ways, official flows can make developing countries more attractive to private investors.

The Real Cost of Financial Crises

- This last role for official money, providing money to countries in crisis, has gotten the most attention lately. The East Asian crisis, as I have said, is only the latest in a series of financial and currency crises throughout the world. In the last 20 years we have seen crises in the Scandinavian countries (Finland, Norway and Sweden), a savings and loan crisis in the United States, and more than 50 other banking crises in developed and developing countries.

- The magnitudes of these crises can be spectacular. The Indonesian Rupiah has fallen 70 percent since July and the currencies in Thailand, Malaysia, the Philippines, and Korea have all fallen by about a third in this period. The currency crises have triggered banking crises in many of these countries. We know from past experience that these can be very expensive to resolve. The record in this regard is held by Argentina, which spent more than 50 percent of its GDP resolving its 1980-82 banking crisis.

- The currencies and stock markets in most of the East Asian countries have been recovering in the last several months. Thailand is the best performing emerging stock market in 1998 (up 36 percent in US dollar terms) and Korea is a close second (up 27 percent).

- But as in previous crises, the effects on the macroeconomy have persisted as the financial effects have begun to wear away. The consequences for people may be even longer lasting.

- As the stock market in Korea has risen, so has the unemployment rate. Prior to the crisis, the Korean unemployment rate was hovering around 2 percent. Since then it has more than tripled, rising to 6.5 percent in March. Over 1 million people have lost their jobs and the unemployment rate is now the highest ever recorded in Korea.

- Newspaper accounts say that 5 million Indonesians may have lost their jobs due to the combined effects of the financial crisis and the drought. The poverty rate, which had come down from 64 percent in 1975 to 11 percent in 1995, could rise up to as much as high as 20 percent. That is another 18 million people who could be in poverty. Another 40 million people are hanging precariously just above the poverty line.

- <u>Example of Brazil</u>. We see this not just in countries in crisis, but the countries affected by the crisis. For instance, take Brazil. Starting in late October, the Brazilian stock market collapsed (fell 40 percent), spreads on international loans rose (from 186 basis points to 527 basis points), domestic interest rates jumped (up 29 percentage points), and gross international capital flows virtually halted. Since then, interest rates have come down, the stock market has gone up, and capital flows have resumed strongly.

- But the real costs of this adjustment continue. The unemployment rate has risen for three straight months, hitting 8.2 percent in March, compared to 4.8 percent in December 1997. This is the highest rate in Brazil since they began collecting the statistics a decade ago. This is 2½ million people losing their jobs.

- These anecdotes are consistent with systematic studies by the World Bank, which has found that in developing countries 5 years after a financial crisis gross domestic product is 7 percent lower, on average, than it would have been without a crisis.

- Higher unemployment and slower growth translate into greater poverty. When people lose their jobs for extended periods, they lose some of their skills and their connection to the workforce. They feel more marginalized and excluded from society. These problems can be difficult to reverse. A bout of high unemployment can translate into lower productivity, sustained higher unemployment, and greater social problems for very long periods of time.

Preventing and Mitigating Crises

- We will always have economic fluctuations and even economic crises. We can, however, do more to prevent them and to mitigate the consequences when they do occur.

- There is now a consensus about the types of domestic reforms that are needed: greater information, better financial regulation, and improved corporate governance.

- Although these are primarily domestic reforms, there is still much that we can do at the international level:

  Information. In order to make the information countries disclose meaningful, it is important that it is collected, standardized, and shared. The IMF is taking the lead on this with its Special Data Dissemination Standard.

  Standards. The Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund that met two weeks ago called for the development of standards and accepted international practices, along the lines of the Basle Committee's Core Principles, in accounting, auditing, disclosure, asset valuation, bankruptcy, and corporate governance. The World Bank stands ready to assist in these efforts.

  Risk Sharing. Too often we place all of the blame, and all of the exhortations for improvement, on the borrower. All loans require a willing borrower and willing lender. Greater responsibility is required by lenders. This will only occur if they bear the full share of the costs of their decisions. Ensuring this happens may require the development of risk-sharing institutions and practices at the international level.

- Better information and improved regulation will not be enough to prevent crises. We have seen crises in transparent countries (e.g. Scandinavia) and in countries with a sophisticated regulatory apparatus (e.g. the United States). What we need are economic systems that are robust against a modicum of fallibility. Nuclear reactors are designed to withstand several simultaneous mistakes. To make economies that can only withstand one and then blame the country after it melts down is not a very good way to proceed.

- There is a consensus that the East Asian countries should not have taken some of the steps which, deliberately or inadvertently, encouraged short-term capital flows (e.g. the Bangkok International Banking Facility). An important question on the world agenda right now is whether countries can do more to actively discourage rapid roundtrips of short-term capital while encouraging long-term flows, especially foreign direct investment.

Many Players are Required to Get the System Back on Track

- Lately we have heard a lot of discussion about reforming the international financial architecture. This is very welcome. But as the title of my talk, "Getting the International System Back on Track" indicates, we need to concentrate on the international system as a whole, developing strategies that complement the narrower financial reforms.

- We face several pressing long-term challenges:

  1.3 billion people live on less than $1 a day.

  2.8 billion people live on less than $2 a day.

  10 million children under the age of 5 die every year in developing countries. This is less than the roughly 20 million children under the age of 5 who died in 1962 (and with a population twice as large). But it is still too much.

  1 billion adults cannot read.

  In many Latin American countries the richest 20 percent of the population have 60 percent of the income and the bottom 20 percent have only 2 or 3 percent. The bottom 10 percent often have less than 1 percent of the total income.

- Solving these problems will require social policies to complement our economic and financial policies. These are necessary to ensure that everyone participates in growth, that everyone is protected from the worst effects of crises, and so that our policies are sustainable.

- This will be a process, again to go back to the title of this talk, that involves "global players," including governments, NGOs, and civil society more broadly.

Whither Globalism: A World in Crisis?

A National Policy Conference in Commemoration of the 50th Anniversary of the GATT

May 5-6, 1998
Hyatt Regency Hotel Capitol Hill - Washington, D.C.

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Tuesday, 5 May 1998

7:30 **Coffee/Registration**

7:45 **Welcoming Remarks**

Clyde V. Prestowitz, Jr.
President, Economic Strategy Institute

8:00 **The Technology Imperative: Shrinking the World and Building the New Global Economy**

*The Honorable Albert Gore, Jr.
Vice President of the United States

8:30 **The European Agenda: Preparing for the Next Millennium**

His Excellency Jacques Santer
President, European Union

9:00 **Realizing the Future: The Role of Government, The Role of Industry**

C. Michael Armstrong
Chairman & CEO, AT&T Corporation

The Honorable Ira Magaziner
Special Adviser to the President

Discussants:
Vinton G. Cerf, Senior Vice President, Internet Architecture and Engineering, MCI Communications
*Michael Dertouzos, Director, MIT Laboratory for Computer Science
*Senator Joseph Lieberman (D-CT), U.S. Senate
Francis Lorentz, former Chairman & CEO, Groupe Bull; and Advisor for Electronic Commerce to the French Government
James Morgan, Chairman & CEO, Applied Materials

Moderator:
Regis McKenna, author, *Real Time: Preparing for the Age of the Never Satisfied Customer*

10:30 **Is Technology Creating a New Economy?**

Steve Case, Chairman & CEO, America On Line

Panel:
*John Doerr, Partner, Kleiner Perkins
Stephen Roach, Chief Economist, Morgan Stanley
George Scalise, President, Semiconductor Industry Association
Edward Yardeni, Chief Economist, Deutsche Morgan Grenfell, Inc.

PRESS EVENT

Release of new ESI book
Antidumping and the U.S. Economy

Presenter:
Greg Mastel, Vice President and Senior International Economist
Economic Strategy Institute

11:45 **Pre-Lunch Address**
The U.S. Trade Agenda in a High-Tech Era

The Honorable Charlene Barshefsky
United States Trade Representative

12:15 **Luncheon**

12:45 **The Nexus Between American National Interests and Globalism**

Rep. Richard Gephardt
Democratic Leader, U.S. House of Representatives (D-MO)

1:30 **Can Working Families Make It in a WTO World?**

John Sweeney
President, AFL-CIO

Panelists:
William Greider, Author, *One World Ready or Not?*
James Glassman, DeWitt Wallace Fellow, American Enterprise Institute
Sylvia Ostry, Distinguished Research Fellow, Centre for International Studies, University of Toronto
William Wolman, Chief Economist, *Business Week* and Chief Economist, CNBC

Moderator:
David E. Sanger, Economics Correspondent, *New York Times*

2:45 **Trust-Busting and the Global Economy**

The Honorable Joel Klein
Asst. Attorney General, Antitrust Division, Department of Justice

*The Honorable Alexander Schaub
Director General, DG IV/Competition, European Commission

3:45 **Found Money: What to Do with the Budget Surplus?**

Panelists:
*Sen. Pete Domenici, Chairman, Budget Committee, U.S. Senate (R-NM)
*Steve Forbes, Editor, *Forbes*
*Franklin Raines, Director, OMB
Robert D. Reischauer, Senior Fellow, The Brookings Institution

Getting Supplies Back on Track

4:45 Concurrent Sessions
Session A:
Global Warming: Keeping the Planet Cool and the Economy Hot

The Honorable Stuart Eizenstat
Undersecretary of State for Economics, Business and Agricultural Affairs

Panelists:
*The Hon. Kazuo Aichi, Member, House of Representatives, National Diet of Japan; Chair, Japan Delegation to Kyoto Global Warming Summit
Mike Bowlin, Chairman & CEO Atlantic Richfield Company
Lester Brown, President, Worldwatch Institute
Joe Gofman, Environmental Defense Fund
*Sen. Chuck Hagel, U.S. Senate
Jerry Jasinowski, President, National Association of Manufacturers

Session B:
Managing in a World of Overcapacity

Panelists:
Hank Barnett, Chairman & CEO, Bethlehem Steel
Papken der Terosian, Chairman & CEO, Silicon Valley Group
Richard Elkus, Board Member, KLA Tencor
Dan Meyer, Chairman, President and CEO, Cincinnati Milacron
*Thomas J. Donahue, President and CEO, US Chamber of Commerce

6:15 21st Century Competition Challenges

Scott G. McNealy
Chairman, President & CEO
Sun Microsystems

The Honorable John McCain (R-AZ)
Chairman, Senate Committee on Commerce, Science and Transportation, U.S. Senate

7:30 Dinner Served

8:00 America's Story: The Imperative of U.S. Leadership in the New Millennium

*The Honorable William Jefferson Clinton
President of the United States

Wednesday, 6 May 1998

7:30 Coffee/Registration

8:00 Spanning the Globe: Adapting U.S. Fiscal Policy to the Needs of the Global Economy

The Honorable Lawrence Summers
Deputy Secretary of the Treasury

8:45 The Asian Contagion: Causes and Cures

Kenneth Courtis, Chief Strategist, Deutsche Bank Asia Capital Markets
Rudiger Dornbusch, Professor of Economics and Intl. Management, MIT
Victor Fung, Chairman, Hong Kong Trade Development Council
*Kim Tae Dong, Economic Adviser to the President, Republic of Korea
Richard Koo, Chief Economist, Nomura Research Institute
*Jeffrey Sachs, Director of the Harvard Inst. for Industrial Development, Harvard University
Jusuf Wanandi, Director, Center for Strategic International Studies, Jakarta

10:15 Derailed: Implications of Japan's Economy Going Nowhere?

*The Honorable Tom Foley,
U.S. Ambassador to Japan

The Honorable Koichi Kato
Secretary General, Liberal Democratic Party of Japan

Discussants:
Glen Fukushima, President, American Chamber of Commerce in Japan
Toyoo Gyoten, Senior Adviser, Bank of Tokyo
The Hon. Yuriko Koike, Member, House of Representatives, National Diet
Minoru "Ben" Makihara, Chairman, Mitsubishi Corporation
Akio Mikuni, President, Mikuni & Co.
Clyde Prestowitz, President, Economic Strategy Institute

11:15 The Security and Economic Nexus

*The Honorable William Perry
Former Secretary of Defense and Professor, Stanford University

Sen. Jeff Bingaman
Ranking Member, Strategic Forces Subcommittee, Senate Armed Services Committee (D-NM)

Discussants:
James Fallows, Editor, *U.S. News & World Report*
Chalmers Johnson, President, Japan Policy Research Institute
The Honorable Brent Scowcroft, President, Scowcroft Group and former National Security Advisor
The Honorable Paul Wolfowitz, Dean, School of Advanced International Service, Johns Hopkins University

Moderator:
Bruce Stokes, Senior Fellow, Council on Foreign Relations

I should remind you that – Bank in very sophisticated well regulated condition, investors, regulation needed in T.K. [illegible]

→ same with [illegible]

Point must be clear [illegible] bear the consequences of their action

Also – clear [illegible] things can be done to make things work better

- { ~~Financial~~ Banking mechanical
- { ~~[illegible]~~ private sector

→ Social

Atonement –

{ Corporate Building
Corruption
Deregulation
Industrial [illegible] –

8-9 am

12:00 **Global Finance and Global Players: Getting the International System Back on Track**

The Honorable James Wolfensohn
President, The World Bank

12:45 **Luncheon: China as Global Player**

An American Perspective
The Honorable James R. Sasser
U.S. Ambassador to China

As China Tilts Toward the 21st Century
His Excellency Li Lanqing
Vice Premier, People's Republic of China

2:30 **Latin America: Tigers or Sick Cubs?**

Welcoming Comments and Introduction:
The Honorable Thomas P. McLarty
Counselor to the President and Special Envoy for the Americas

*His Exc. Ernesto Zedillo Ponce de Leon
President, Republic of Mexico

Panelists:
*The Hon. Genaro Arriagada, Special Envoy of President Frei (Chile) to the Summit of the Americas
Sen. Chris Dodd, U.S. Senate (D-CT)
Rep. Jim Kolbe, U.S. House of Representatives (R-AZ)
Moise Naim, Editor, *Foreign Policy*

4:15 **Europe: Will the Dinosaur Become a Dynamo?**

The Rt. Honorable Margaret Beckett
Minister of Trade, United Kingdom

Panelists:
Manfred Bischoff, Chairman of the Board of Management, Daimler Benz Aerospace AG and President, German Aerospace Industries Assn.
Dana G. Mead, Chairman & CEO, Tenneco Corporation

Hasso Plattner, Chief Executive Officer, Systems Applications & Products (SAP)
Amb. Jean-Daniel Tordjman, Ambassador at Large, Special Representative of France for International Investment
Norbert Walter, Chief Economist, Deutsche Bank

Moderator:
Bill Emmott, Editor, *The Economist*

6:15 **Reception**
Commentary: American Strategy for a World in Crisis

*The Hon. Madeleine Albright
U.S. Secretary of State

7:00 **Dinner Seating**
Welcoming Comments and Introduction

*Maurice R. Greenberg
Chairman, American International Group

The ASEAN Agenda: Moving Forward

*Her Excellency Dato Seri Rafidah Aziz
Minister of International Trade and Industry, Malaysia

7:45 **Dinner Served**

8:30 **America's Stake in the Asia Pacific**

His Excellency Lee Hsien Loong
Deputy Prime Minister, Republic of Singapore

Congressional Commentary

Representative Amo Houghton (R-NY)
U.S. House of Representatives

Representative Robert T. Matsui (D-CA)
U.S. House of Representatives

Invited

Global Finance, Global Players

→ Let's take a look

– for 4 years – each ended in some form of financial crisis

– We are going through one now

But

→ we are all talking about a new global architecture –

Do not want to impinge on Larry but can hold diff angles –

Also within countries we have most banking – financial crisis

- Scandinavia
- Argentina
- US savings + loan
- Japan
- 50 countries –

→ IMF for surveillance + to help system and resolution programs to various countries

– Recently in Thailand Korea Indonesia →

But before in Russia – Mexico – many other countries –

WB for 47 bill program
+ European Union
Bilaterals etc –

[Announcement made for Brazil]

BIS – rules for Bank Supervision –

Because we are an international system –

WHITHER GLOBALISM:

A WORLD IN CRISIS?

May 5 & 6, 1998

Hyatt Regency on Capitol Hill
Washington, DC