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Outlook of FTAs in the Asia-Pacific

Makio Miyagawa

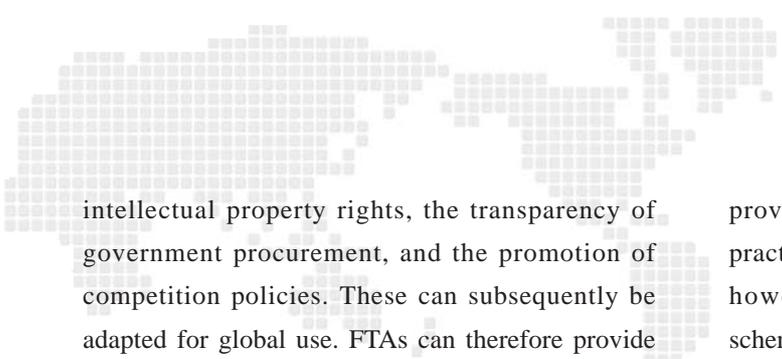
Regional economic integration has become a dominant feature of the world economic environment, particularly during the last decade. The growing trend towards regional economic integration in Europe and the Americas is particularly noteworthy. The European Union (EU) has been steadily expanding its FTA network with Central and Eastern Europe. Countries in North America have also followed suit. They created the North American Free Trade Agreement (NAFTA), and are making further attempts to put Latin American countries under their FTA umbrella to create bigger free trade area by 2005 (though now this deadline appears impractical). Meanwhile, the Latin American economies are rather eager to form by themselves their own free trade agreement. Likewise, similar trends are evident in the Middle East, and some parts in the African continent.

Such agreements are today fairly diverse in nature, and take various forms, mostly categorised in four major forms, i.e., free trade agreements, customs unions, common markets and economic unions. Free trade agreements (FTAs) are, amongst these, the most elementary in form, simply eliminating tariffs of goods and liberalising services and, in some, institutionalising better legal environment for accepting investment from the FTA partners. Customs unions are, on top of the frameworks of the FTAs, setting common tariffs to imports from the third countries, while eliminating tariffs between or among the parties. Common markets, the third category, allow not just free trade and investment, but also freer movement of money and labour. The economic union, the most advanced form, unifies even macro economic management of the parties with the common central bank and issuing common currencies.

Whichever stages they may be, elementary or advanced, as long as they contain elements of eliminating tariffs and liberalising trade in services, trade experts view them as FTAs. The WTO made public that more than 200 free trade agreements (FTAs) have been notified to the World Trade Organisation (WTO). Over 140 agreements are currently in force. Most WTO members are today party to at least one such agreement. Trade volumes under preferential trade agreements have increased to reach more than half of total world trade. These figures symbolise that the world trade is already conducted under more liberalised platform than those agreed in the WTO.

A number of elements for discussions on this subject exist. Trade experts raise issues, such as whether these agreements derogate the WTO rules and systems. The rules-based WTO is a key institution that can provide a fair and predictable global trading environment. At the same time, however, there has recently been a need to examine various tracks that complement the efforts of the multilateral trading system towards global trade liberalisation. In the past, FTAs used to be viewed as precursors to economic blocs, and therefore as stumbling blocks to the GATT/WTO.

These views are now disappearing. No FTA can afford to be inward looking, as globalisation has made markets much more inter-linked and inter-dependent. It is also increasingly recognised that FTAs can have a positive ratcheting effect on global trade liberalisation. FTAs are therefore now seen as an essential vehicle of international trade policy, complementing the multilateral trading system. FTAs can be a test bed for new and innovative models of rules governing bilateral or regional economic activity, in such areas as the protection of



intellectual property rights, the transparency of government procurement, and the promotion of competition policies. These can subsequently be adapted for global use. FTAs can therefore provide positive complementary pressure to evolve WTO agreements. Since FTAs are framed between a small number of partners and at a pace that is comfortable to all parties, they are an effective means of preparing societies for greater transborder exposure at the multilateral level. They provide an important demonstrative effect of the benefits of trade liberalisation without attracting a severe backlash against liberalisation.

Those trade experts who like APEC always tend to emphasise whether and how FTAs among APEC member countries would be detrimental to their cuddly baby, “the Bogor Goal”. However, these are only one facet of the FTA universe, and the importance and roles of FTAs in 21st century cannot be judged solely by such narrow scopes of trade mafia’s interests. In recent times, economic integration schemes have come to be more encompassing, with their coverage broadening from border measures to include domestic regulations and internal measures. For example, financial experts have identified a number of important roles in them if the agreements cover linkages in financial markets. Experts in information and technology, education, science and technology, legal development, have also emphasised a variety of meanings of creating such bilateral and regional legal frameworks from their respective viewpoints.

In fields which trade experts would call as “trade related”, such as investment and intellectual property rights protection, WTO rules are still at an elementary stage, as compared to that in FTAs. As to trade related investment measures, the WTO TRIM agreement only covers regulations on local content and foreign exchange controls, far less sweeping to ensure more liberalised investment flows than agreed formulae contained in bilateral or regional FTAs. As for intellectual property rights, the WTO simply

provide generic rules. More important from the practical protection of IPR in this region should, however, be to establish agreed co-operative schemes to develop legal framework of raising IPR protection level. FTAs contain such co-operative factors.

Let us look into the vast scope of coverage and the benefits of FTAs which countries in this region have either agreed or are currently negotiating. Many countries in this region have surpassed, or are about to surpass, the level of donor-recipient relations. Nonetheless, average tariff rates remain relatively high in many countries in this region. Even if parties to an FTA have already successfully lowered and maintained relatively low tariff rates, which would make expansion of trade in goods through FTA tariff elimination modest, FTAs would still bring about benefits through lowering of unnecessary barriers to trade and freer movement of goods, services, investment, information and people.

Considerable trade expansion can be expected from bilateral liberalisation in a broad range of pivotal services sectors. Services constitute a vital component of modern economies. Mobility of people and liberalisation of professional services would also contribute to significant benefits of the FTA partners. Investment is another area. If the parties to an FTA already have an open and liberal investment regime, the establishment of a legal framework governing the rights and obligations of the party governments and investors would further improve the investing environment.

The harmonisation and convergence of rules, standards, procedures and business practices through the creation of FTAs would afford greater convenience and certainty to the private sector, particularly in areas such as harmonising regulations and procedures pertaining to e-commerce, customs clearance, product testing and certification, settlement of commercial disputes and competition policy. These would greatly facilitate bilateral trade and investment.

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Establishing mutual recognition agreements would facilitate bilateral trade. First, it would remove duplicative testing and certification procedures and thus shorten the time needed for products to reach the markets. Secondly, it would lead to the harmonisation of standards of products, thereby improving the efficiency of industrial production. All these would translate into reduced business costs and increased consumer welfare.

FTAs in Asia should cover even broader subjects than those above. The Asian financial crisis, whose memory is still fresh with us, proved that asset accumulated in a country through trade and other economic activities could suddenly be reduced in enormous scale through instability of financial market. The international capital flight could easily and quickly endanger economic management of countries in this region. Global movements of finance capital (trading of stocks, bonds, currencies and exotic instruments) has, on the one hand, brought about enormous benefits to our economies, but have, on the other hand, caused destabilisation of economies. Strengthening bilateral or regional financial systems would, therefore, be one of the critical pillars of FTAs created among countries in this region. Lessons of this crisis suggested that countries in this region should strengthen co-operation and linkages to increase resilience in the region. The financial sector co-operation agreed in FTAs should aim at stabilising markets and augmenting the attraction of the parties' financial markets, offering businesses a larger number of fund raising alternatives. An FTA could also provide a useful framework for enhanced regulatory cooperation to meet the new challenges posed by emerging financial market developments, and improve the capital market infrastructure in countries party to FTAs.

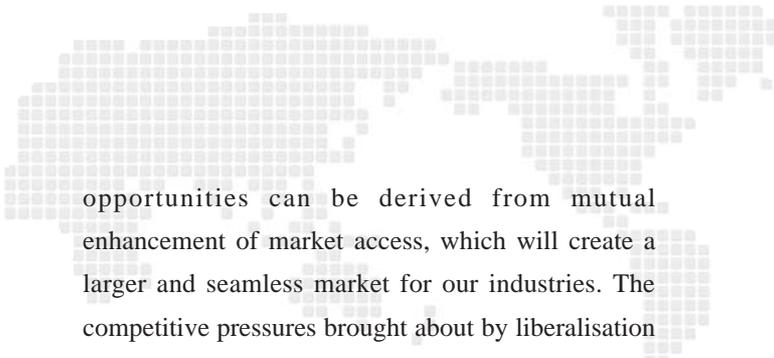
FTAs could also include co-operation initiatives in many diverse areas such as information and communications technology, science and technology development, human capacity building, media and broadcasting, development of small and medium sized industries, tourism, postal services and

transport. Cooperation for the joint development in science and technology field would, particularly, create a robust framework to protect and promote the use of intellectual property, to identify and invest in start-ups in the region, and to undertake research in the life sciences. FTAs could help to develop the human capital, through exchanges between educational institutes, professional bodies and government agencies, and through mutual recognition of degrees and credits. Cooperation in the area of information and communication services would serve to the enhancement of the security of the communications infrastructure, would improve the legal and regulatory certainty for electronic transactions, and promote the development of e-Governments. FTAs would further promote business partnerships, especially between the SMEs and start-ups of the parties, which are keen to expand into each other's markets and region.

These benefits, though not easy to quantify them through general equilibrium model analyses, would be more than sizeable and certainly much larger than those benefits gained through the elimination of tariffs and the liberalisation of services sectors. They would further substantially improve economic welfare of member countries. Moreover, FTAs could catalyse the member countries' economic system modernisation and reforms for further development and economic advancement.

The scope of FTAs is deeper in legal requirement, broader than a mere trade agreement, greater in caring the developmental stages of parties, and less damaging for fragile embryonic or sensitive producers as compared to the sudden elimination of guard to all the countries around the world. Such an agreement is rather more adequately called as an economic partnership agreement (EPA) than a free trade agreement (FTA).

The tremendous changes sweeping the world will have compelled governments to push forward continuous regulatory reforms. Societies must be prepared to embrace change. EPAs would help to accelerate such reforms for the benefit of the countries party to them. Significant synergy and



opportunities can be derived from mutual enhancement of market access, which will create a larger and seamless market for our industries. The competitive pressures brought about by liberalisation will also bring our societies into a more rapid pace of change, and enable us to develop faster the capabilities and competencies required for the future.

The reforms and changes would naturally promote regional economic integration through harmonisation of rules and systems among economies in our region. Efforts towards economic integration must address the new challenges that technological progress and globalisation have brought about. In addition to promoting trade in goods and services, we should work towards the smooth trans-border flow of people, capital and information. We have to take active measures to encourage innovation and competition in the integrated market. Economic partnership agreements (EPAs) should incorporate a process of creative experimentation through continuous review and improvement. EPAs should provide a model framework of economic integration in this region.

There are various motivations for the pursuit of EPAs. Countries build such agreements simply to obtain more secure and favourable access to important markets, while they see them as strategic vehicles to promote regional economic and even political integration. Likewise in Europe, where regional political co-operation has been driven by economic integration, East Asian integration would pick up momentum, should its economic integration scheme succeed. EPAs, which should provide legal frameworks for economic integration, would catalyse institutional frameworks for regional co-operation in broader and more comprehensive fields.

I dream of the day in future when EPAs in this region will lead to the reduction of tensions in this region, by helping to build a larger seamless regional market and thereby creating a good community through lowering our border walls and even through reducing sovereignty levels.

This is a revised version of an article originally published in the July/August 2005 edition of The Far Eastern Economic Review.

PTAs in the Asia-Pacific Region: Overview and Responses

Robert Scollay

Introduction

The proliferation of preferential trading arrangements (PTAs) has been the most notable development in the trading environment of the Asia Pacific region in recent years. Since late 1999 eleven new PTAs have been concluded between APEC members, and many more proposals are at various stages of negotiation, study or discussion. With the PTAs that were already in place before the new “wave” of PTAs began, and the initiatives currently under negotiation or study, the number of PTAs between APEC members could easily exceed 30 in the not too distant future.

This explosion of preferential trading activity in the last five years stands in sharp contrast to the approach taken by APEC members toward trade liberalisation in the preceding five years that followed the Bogor Declaration in November 1994. At the time of the Bogor Declaration three preferential trade agreements among APEC members were already in place: NAFTA, AFTA and ANZCERTA. In the next five years only two new preferential agreements were concluded among APEC members, the Canada-Chile and Mexico-Chile FTAs, both of which could be regarded as partial substitutes for the failed attempt to bring Chile into NAFTA. During this period APEC members appeared to have formed a consensus around support for the WTO and APEC processes, as well as unilateral liberalisation as the preferred vehicles for trade liberalisation in the Asia-Pacific region.

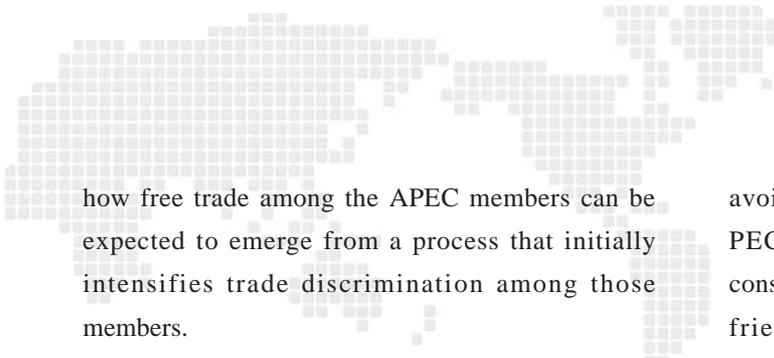
The APEC process, as laid out in the Osaka Action Agenda (OAA) of 1995 and the Manila Action Plan for APEC (MAPA), was to be non-discriminatory, voluntary and non-binding, based on the principle of “open regionalism”. The term

“concerted unilateralism” was coined to describe this process, which was thus explicitly designed to be non-preferential in nature. APEC thus represented a unique attempt to pursue regional trade liberalisation without forming conventional preferential trading arrangements.

All APEC members remain formally committed to the “Bogor goals” of free trade and investment in the Asia-Pacific region, to be implemented by 2010 in the case of developed economy APEC members and by 2020 in the case of developing members. However, the momentum which appeared in the mid-1990s to be building up behind the concept of “concerted unilateralism” appears to have subsided, and APEC members now look almost exclusively to the WTO as the vehicle for non-discriminatory liberalisation. Meantime, measured on the basis of relative effort, a rapidly growing proportion of APEC members are clearly prioritising preferential trade initiatives as their principal modality for trade liberalisation in practice.

At the same time, APEC’s scheduled mid-term review, along with the looming first Bogor target date of 2010, is beginning to concentrate attention on whether APEC has a realistic prospect of achieving its Bogor targets. APEC members have been strongly emphasizing the importance of a successful result in the WTO’s Doha Development Agenda (DDA). Achieving significant liberalisation through the DDA is certainly crucial, but is also clear that even a successful DDA will not result in commitments to move fully to free trade even by developed economies.

New PTAs are routinely announced as being steps toward the achievement of APEC objectives, as well as consistent with WTO obligations. There are however important questions to be answered as to



how free trade among the APEC members can be expected to emerge from a process that initially intensifies trade discrimination among those members.

Responses to the Proliferation of Asia-Pacific PTAs

Two main types of response to the proliferation of PTAs in the Asia-Pacific region can be emphasised. The first is to identify and promote design features of PTAs that can maximise their favourable effects and minimise their unfavourable effects, and in the process provide as much support as possible for the achievement of APEC objectives. This is approach taken in PECC (2003b), which proposed a “common understanding” on the design features that should be found in PTAs that can contribute to the achievement of APEC goals. In 2004 this approach was taken up by APEC Senior Officials, who have now produced a set of guidelines for “Best Practice for RTAs/FTAs in APEC” which was endorsed by APEC leaders at their Santiago meeting. This set of guidelines is commendably rigorous and provides a very useful framework for the development of “APEC-friendly” PTAs.

Both APEC and PECC emphasise the importance of consistency with the principles of Part I of the OAA. Principles addressed in both the “guidelines” and the proposed “common understanding” are non-discrimination, comprehensiveness, flexibility, WTO-consistency, transparency and cooperation. Both emphasise comprehensiveness, although close analysis of the language of the “guidelines” on this point suggests that it does not go beyond the relevant clause in the preamble to the WTO Understanding on Interpretation of GATT Article XXIV. This is balanced however by proposing limits on flexibility, through the provision that “phase out periods for tariffs and quotas are” to be “kept to a minimum”, while taking into account “the different levels of development among the parties.” PECC also stresses the importance of

avoiding permanent exclusions. Both APEC and PECC of course emphasise the need for WTO consistency, but both also emphasise that “APEC-friendly” PTAs must go much further than compliance with WTO rules. Both also look for ways to link with the OAA principle of non-discrimination; PECC suggests for consideration three possible ways of doing this, while the APEC guidelines emphasise one of these, provisions for accession by third parties. The guidelines stipulate that PTAs should build on existing APEC work, while PECC emphasises the desirability of linking to APEC principles on Investment, Competition and Regulatory Reform, Government Procurement, and Trade Facilitation.

Both APEC and PECC also emphasise the importance of trade facilitation, and also of simple, transparent rules of origin that, in the words of the guidelines, “maximise trade creation and minimise trade distortion”, the latter word being an interesting variation on the usual “diversion”. The guidelines contain the interesting stipulation that “wherever possible, an economy’s ROOs” should be “consistent across all of its RTAs and FTAs.” If applied simultaneously by all APEC economies, this could encourage convergence in rules of origin across APEC PTAs, thus limiting or perhaps even eliminating the “spaghetti bowl” effect.

The guidelines and PECC also emphasise development dimensions, with the guidelines including an explicit statement of support for economic and technical cooperation, as well as emphasis on sustainable development. The guidelines provide a link to one of the new priorities in APEC’s work programme by stipulating that PTAs should promote structural reform in the economies of the parties.

The guidelines do not mention APEC’s target dates for achievement of the Bogor goals. PECC on the other hand emphasises that the transition periods in PTAs among APEC members should be consistent with target dates for implementing their Bogor

commitments. It could be an interesting exercise to use the guidelines as a benchmark to assess existing PTAs among APEC members.

A second response is to identify and seek to promote PTA configurations that yield the greatest economic benefit. In turn a common approach to assessing economic benefit is to use CGE simulations to estimate economic welfare effects. In a series of papers Scollay, Gilbert et. al. have emphasised that PTAs between larger, more inclusive groupings tend to yield the biggest welfare gains. The economic logic behind this is that the larger the group, the wider is likely to be the range of products for which internationally competitive producers are included within the group, thus increasing potential trade creation and reducing potential trade diversion; and the less likely is the exclusion of economies that trade intensively with the PTA members, and that are accordingly especially vulnerable to potential welfare losses from trade diversion.

The results show that in comparison to alternative “ASEAN Plus One” initiatives, the larger, more inclusive ASEAN Plus Three FTA yields more favourable welfare effects for Northeast and Southeast Asian as a group, and also for most of its individual Members, though not all: Malaysia, the Philippines, Singapore and Thailand all derive greater welfare gains from at least one of the “ASEAN Plus One” FTAs. The ASEAN Plus Three FTA on the other hand is the East Asian configuration that produces the largest economic losses for APEC members who do not participate in it, especially for the three western Pacific APEC members: Taiwan, Australia and New Zealand.

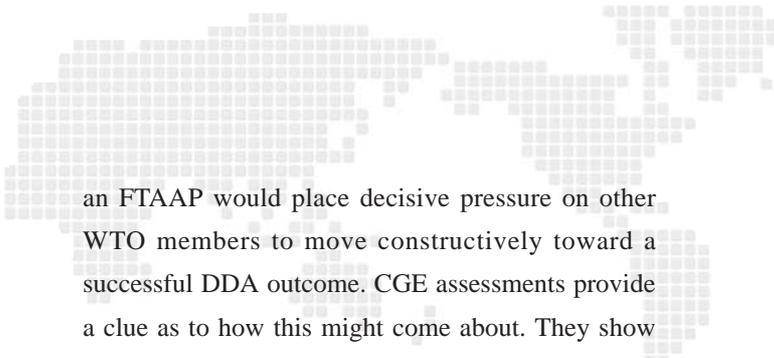
Widening the scope of liberalisation to include all APEC members converts their welfare losses into welfare gains. The Free Trade Area of Asia-Pacific (FTAAP) variant of APEC-wide liberalisation also yields higher welfare gains than all three “ASEAN Plus” configurations for most East Asian economies, again with the exception of Malaysia, the Philippines, Singapore and Thailand in Southeast Asia. In addition to these four economies, the APEC

MFN variant of APEC-wide liberalisation produces lower welfare gains than at least one of the “ASEAN Plus” scenarios for Korea, Indonesia, and Viet Nam.

An analysis of the FTAAP proposal is contained in Scollay (2004). This paper emphasises that ABAC’s FTAAP proposal involves turning away from the original APEC concept of non-discriminatory liberalisation based on open regionalism and implemented through voluntary, non-binding commitments, in favour of an explicitly preferential arrangement established through reciprocal negotiation of binding commitments. A number of ABAC members have been suggesting that this change in APEC is necessary if APEC is to have any prospect of achieving its free trade and investment goals by the Bogor target dates. An FTAAP would be the only WTO-legal way to implement binding liberalisation commitments among APEC members that were not also extended to other APEC members. The paper also stresses the political and economic factors that would make an FTAAP very difficult to achieve. It argues that an FTAAP would be pointless without the support of the US and the three major Northeast Asian economies, and preferably Canada and Mexico as well. Setting the agenda and rules for an FTAAP negotiation would be an extraordinarily difficult task, as the FTAA experience amply demonstrates.

Nevertheless it can also be argued that an FTAAP offers obvious advantages over the current proliferation of PTAs in the Asia-Pacific region. In addition to the more favourable welfare effects, it could potentially overcome the “spaghetti bowl” problem, although this again will not be easy. It also forestalls the further spread of the “hub and spoke” pattern and avoids the creation of a “bipolar Pacific” with its attendant implications of a “three-bloc world”.

A crucial question on the FTAAP is how it would affect the WTO and the health of the multilateral trading system. At one end of the spectrum are arguments that creation of a giant preferential trading bloc would be fatal for the WTO. At the other end of the spectrum are arguments that



an FTAAP would place decisive pressure on other WTO members to move constructively toward a successful DDA outcome. CGE assessments provide a clue as to how this might come about. They show that the FTAAP imposes significant welfare losses on non-APEC members, but under the FTAAP these losses are converted into substantial welfare gains and world welfare is significantly enhanced.

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Bracing Management as a Mean to Strengthen Corporate Governance

Eli Reiter and Darson Chiu

Experts in the region of Asia-Pacific have considered corporate governance as one of the most effective mechanisms to prevent financial crisis from happening again. Corporate governance has covered areas such as the rights of shareholders, the responsibility of board of directors, transparency, accounting and auditing, and stakeholders. We intend to focus on management philosophies and locating feasible systems to strengthen sound corporate governance.

Organizations have faced many complex challenges of responsible business practices within their structure and the external environment. A company's journey requires management staying informed of evolving ideas about organization roles, concepts, and responsibilities, the changing and turbulent environment, and getting their house in order. Becoming an effective leader one needs to be a good listener, skilled at responding to managing change, and competency in interpersonal skills. Shaping future leaders requires detailed knowledge of organizational behavior and leadership.

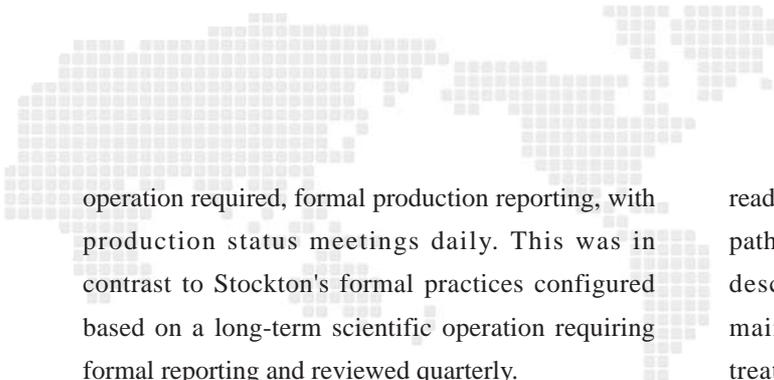
Organization Management

Organization departments are links in the organization's value chain, by carrying out value creating activities. Success depends on each department's performance in adding value for its customers and the interaction of the departments. The target customers stand at the center of the marketing process and the organization's goal is to develop strong relationships with them and meet their needs through organization management and leadership tuned to their needs. Management has to take the reins and make a difference for organizations to succeed in today's environment. The management journey has been a long one and with

the speed at which the environment is changing, it is still just the beginning. The basis of management to reach its objectives is in its resource allocation and utilization of its people, material, equipment, and capital. Management must be able to conceptualize and align its resources with social, political, and economic aspects of its environment. Wren (1994) said, "[m]anagement thought brings form to function and philosophy to practice" (p.442). Theorists such as Taylor, Gantt, Fayol, Weber, and Follett have given us the tools, which, to some extent, needed modifications over the last century depending on current management needs. Creating new products, processes, solutions, and services requires leadership, intellect, creativity, and innovation are what it is all about (Gupta, 2004). Management in acquiring this information has information power and according to Lin (2005), "[i]nformation power is the key factor by which the leader can fully master the information to control the organization and plan its future development" (p.3).

Beyond Theory Y

J. J. Morse and J. W. Lorsch (1970) suggested a new set of assumptions moving beyond Theory Y that Morse and Lorsch (1970) called "Contingency Theory: the fit between task, organization, and people" (p.62). They stated that management needed to design and develop organizations wherein the organizational characteristics fit the type of task. The study used a manufacturing entity, Akron Containers, a highly structured organization having formal rules, procedures, and control systems. The other entity, Stockton Research Lab, had minimum, loose, and flexible formal rules allowing scientists to respond to task changes. Akron's formal structure configured based on a short-term manufacturing



operation required, formal production reporting, with production status meetings daily. This was in contrast to Stockton's formal practices configured based on a long-term scientific operation requiring formal reporting and reviewed quarterly.

Morse and Lorsch (1970) stated, they “found that the organization-task fit is simultaneously linked to and independent with both individual motivation and effective unit performance” (p.66). Reviewing McGregor's Theory X and Theory Y the findings show Akron people worked using formalized procedures with little decision-making contribution, but it was found that they were highly motivated. According to Theory X, people would work hard in that environment when forced. Theory Y indicates the people should be involved in decision-making as well as being self-directed to be so highly motivated. The contingency theory appears to explain the findings one of which is achieving a sense of competence. Therefore, competence motivation will most likely occur when there is a fit between task and organization. Morse and Lorsch (1970) emphasize, “one important implication of the Contingency Theory is that we must not only seek fit between organization and task, but also between task and people and between people and organization” (p. 67). Therefore, a major managerial action requires knowing how to tailor the organization to fit the task and the people yielding effective unit performance with a higher feeling of competence motivation. Managerial leadership's ability in assessing frequency of performance feedback, and what goals are implicit guide them in formulating decisions, job assignments, rewards, and controls. The leader can help by his or her knowledge of what psychological needs best fit the task and setting, and establishing a personnel selection criteria in satisfying these needs.

The Nut Island Effect: When Good Teams Go Wrong

The Nut Island Effect, P. F. Levy's (2001) article is one every manager and business owner should

read and prevent being a victim to an organizational pathology that can happen to any company. They described a hardworking, dedicated group that maintained and operated the Nut Island sewage treatment facility from the late 1960s until 1997. This dedicated team was responsible for releasing billions of gallons of raw sewage into Boston Harbor creating a pollution nightmare for the Boston community. One asks, how could this happen, how can a good team go wrong?

Senior management working on high visibility problems assigns the team to a vital task. The team performs its task in their isolated, out of sight facility. The team given autonomy learned to organize and manage themselves developing a great sense of accomplishment. Because of the team's apparent self-sufficiency, senior management begins to take the team for granted and ignores the team members when asking for help or advising management of problems. This unresponsiveness breeds hard feelings in team members reinforcing its isolation and leading to an us-against-the-world mentality (Levy, 2001). Team pride reinforced the team's decision to stay out of management's sight, minimize problems, and avoid asking management help. Management not hearing of problems pays no attention to the team and interprets this silence with good facilities management by the team. The team in isolation, having a selective hiring process has no exposure to outside ideas or industry new practices proceed to make up its own rules believing the rules enable them to complete their mission. However, the rules hid the deterioration of the teams environment and performance. Team members refused outside offers to solve problems while management continuing to believe no news is good news continues ignoring team and task.

The team in refusing to seek help from senior management began making internal repairs on equipment and kept the plant running, they improvised whenever they could to keep processing the sewage and dumping it into Boston harbor.

Management not recognizing the continued silence from the team maintained business as usual until one day the four major diesel engines failed, the system shut down. The team advised management, requested funds to immediately fix the engines, instead management told the team to make due any way. The team worked on the engines frantically until they finally gave out and for four days untreated sewage flowed into Boston harbor.

Management must pay attention and not extinguish the values, dedication, and commitment of its workers. Management in paying attention to the employees should set-up performance measures and a reward system tied to internal accomplishments and organizational goals, which help build local responsibility and group cohesiveness.

Senior management must establish an on-site presence by management by walking around (MBWA) visits to the facility and reward and recognition events. Management's setting up an integration program such as job rotation, with people from other organization units, exposes the local team to other ideas and other ways to accomplish their task. This encourages team members to focus on the big picture, which according to Levy (2001), "[a] team can easily lose sight of the big picture when it is narrowly focused on a demanding task" (p.11).

Shaping Future Leaders at Securicor

Shaping Future Leaders at Securicor, an article by I. Cowden (2004), describes the development of a leadership program of Securicor, Ltd., a global security services corporation, in support of its strategic objective and organizational design. The program identifies, assesses, and develops leaders of the future to support the corporation's long-range plans. According to Cowden (2004), leadership "means being able to engage and inspire. It's about creating new possibilities from within real constraints while working with complexity, ambiguity, diversity, and competing priorities" (p. 16).

Securicor, with over 130,000 customers in 50

countries supported by its 100,000 employees, uses a regional structure to enable the strategic business units (SBU) to formulate their own market place strategies. The corporate concept for each SBU to maintain close customer relations, a responsive decision-making process, and be accountable for their actions insures making the right decision at the right time to be superior to their competitors. Achieving sustainable business, the driving engine in the market place, and recognizing the capabilities needed by future leaders and addressing them now is necessary. Over the last three years, the company doubled in size, began operating in twice as many markets and countries, and employing twice as many people, have created challenges for its leaders. The organization's management, in the expanded global market, facing unique customer needs, new market development, cultural diversity, and different governmental legislation recognized the need to change the leadership development process to create a new higher level of effective leadership (Cowden, 2004).

Corporate management determined that over the past three years they focused on management skills more than leadership skills. The old ways could not accomplish what was necessary for the new business direction and management adopted a concept that helped in understanding the types of work and decisions required at different levels in the organization. The new concept helped understand how people make decisions and judgments enabling one to assess the level of complexity of thinking a person can handle and the rate of future growth.

The corporate framework, the cornerstone for its assessment and development processes, incorporates strategic leadership competencies, managerial competencies, personal competencies, knowledge and expertise (Cowden, 2004). The new designed program calls for nurturing and developing the talents identified through intensive learning techniques, personal mentoring, and feedback to further hone leadership skills that supports both strategic objectives and organizational design. Key points noted; drive strategic leadership from the top;



ensure leadership development alignment to business strategy, and ensure leadership development processes can match the rate of organization change.

Communicate Through Your Supervisors

Louis I. Gelfand (1970) in his article, *Communicate Through Your Supervisors*, focuses on internal communications problems at a Pillsbury Company plant in which managers considered relationship deterioration as a major problem. A study conducted by an independent consultant found good communications and good employee attitudes went hand in hand. In addition, good communication is about providing employees with information they want through their preferred channel, and quickly. According to Gelfand (1970), “the employees... were most interested in provisions for job security, company plans, growth predictions, manpower development, ...research and new products” (p.6). In addition, the employees indicated their interest in the timeliness of the information they received. The company newspaper, publishing information monthly did not coincide with employee needs due to stale information and thus they preferred obtaining the information from their supervisors. Several of the company plants according to their employees indicated the grapevine provided too much information.

Corporate management organized a communications program with the main objective to provide more information about what is happening in specific work areas and why. Other objectives include employee closer identification with the organization; encouraging employees to look beyond their immediate jobs; lower absenteeism, lower turnover, improved labor relations, and enhancing the role of the supervisor (Gelfand, 1970).

Categories covered in the supervisor employee meetings are production statistics, new products, and what the new products mean to the company. Supervisor training establishes critical topics and handling procedures such as; stay clear of

propaganda in the meeting, avoid labor relations discussions, responses to a complaint should be conservative, and acknowledge any mistakes made. The program was successful, grievances reduced, employee improvement ideas were practical and of value, supervisors developed a better relationship with their subordinates, attitudes of employees were more positive, people were motivated.

“Effective coordination requires frequent, timely, problem-solving communication carried out through relationship of shared goals, shared knowledge, and mutual respect” (Hoffer, 2003). The program established at the Pillsbury Company started the communication process which eventually developed the mutual respect, and shared goals between it supervisors and their employees. Knowledge of what psychological needs employees require based on the task assigned may require special training but should be a consideration for organizations in the near future.

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FTAs and Taiwan's Economic Security

Chen Sheng Ho

Introduction

In recent years, there has been an increase in the number of free trade agreements (FTAs) around the world. For example, even Japan has signed a FTA with Singapore and is planning to do so with others. Japan's decision to sign FTAs is significant because for many years, Japan's policy has been not to sign FTAs and only supports WTO's efforts to liberalize trade multilaterally. This is an indication that many countries are now considering FTAs to have the ability to strengthen their economic security. In the case of Taiwan, it has signed a FTA with Panama and would like to increase the number of FTAs. Therefore, Taiwan also believes that FTAs would also benefit its economic security.

The main purpose of this paper is to analyze the relationship between FTAs and Taiwan's economic security. This paper will discuss the meaning of economic security and why it has become important to countries. Additionally, this paper will provide information on FTAs, so that we will become more knowledgeable about the different kinds of FTAs. We will also be able to know Taiwan's situation with FTAs. Finally, this paper will provide suggestions for Taiwan.

Complex Interdependent World and Economic Security

Keohane and Nye has written many years ago about characteristics of international affairs before globalization becomes a hot topic, as it is today. They have described world politics as characterized by complex interdependence (Keohane and Nye 1989, p.23). The characteristics that both authors have mentioned are also valid today in our globalizing world. Let us examine their views regarding the conduct of affairs between nations.

One important characteristic of complex interdependence is the existence of multiple channels connecting societies. Government officials from around the world are in constant contact with each other. Non-governmental elites often meet with each other to conduct business. Multinational corporations have enlarged their areas of operation. The busy activities occurring at international airports of many nations illustrate the fact that there exist multiple channels of contact between nations (Keohane and Nye 1989, pp.24-26).

Another characteristic that both authors have identified is the absence of hierarchy among issues. Governments no longer are preoccupied with issues of military security. The sets of issues that governments are concerned with have become more diverse. Economic, environmental, population, and energy issues, to name a few, have emerged as important issues for governments to consider (Keohane and Nye 1989, pp.26-27).

During the Cold War period, there was certainly the possibility of a major conflict between the United States and the Soviet Union. Both countries had stockpiled large number of nuclear weapons and built strong armed forces. In addition, both countries supported rival groups in many countries with funds and weapons. Several countries in Africa, Asia, and Latin America experienced military conflicts. Therefore, it was logical to expect that governments in the Cold War era were primarily concerned with military issues. The collapse of the Soviet Union is considered to be the official end of the Cold War era. In today's world, we can see that nations are concerned with all kinds of issues, such as military security, economic development and environment. Particularly, economic issues have become important for nations.



The third important characteristic of complex interdependence is that the role of the military force has become minor. Traditionally, political scientists have emphasized the role of military force in international politics. The two world wars have encouraged nations to maintain strong armed forces. The rationale is to allow a country to prevent an invasion from the outside. Military force is considered the ultimate form of power and a major component of national power. However, in a world characterized by complex interdependence, nations have perceived that the margin of safety has increased. The fears of being attacked by foreign invaders have decreased to a great extent. Furthermore, the use of force has been considered not an appropriate way for achieving national goals (Keohane and Nye 1989, p.27).

After reading the above paragraphs regarding the characteristics of our complex interdependent world, we can see that governments now focus on economic issues and now is often called economic security. Recently, economic security has become widely mentioned for the purpose of describing economic issues that can affect a country's economic situation. Furthermore, the rise in the number of conflicts between countries in trade has also led to the significance of economic security as a topic of discussion for scholars and government policymakers.

We can say that a country has economic security when the country believes that its economy is in good shape. Essentially, any factors that can affect a country's economy are considered important to that country's economic security. There are many factors that can affect a country's economic security, such as the availability of land, labor and capital. In addition, many economic issues have become important in recent years that can affect a country's economic security, such as the availability of oil, WTO's Doha Round of multilateral trade liberalization and FTAs. Therefore, in this paper, we are focusing on FTAs' effect on a country's

economic security.

Benefits of FTAs

There are several explanations for countries to form FTAs. One major reason is that countries would gain economic benefit. The improvement in political ties between members is another reason. It could also be easier for a small group of countries that share similar political and economic objectives to seek cooperation with each other through FTAs rather than multilaterally. The various FTAs could serve as catalysts to stimulate multilateral negotiations to liberalize world trade.

The fundamental reason for the formation of FTAs is that members could accrue greater economic benefit. Members enjoy the benefit of greater competitiveness for their products, as a result of the elimination of tariff and non-tariff barriers to trade. Non-members who want to export to countries within the bloc would have to face greater competition from less favorable trading arrangements.

Trade flows between members of FTAs could increase tremendously. As trade barriers are lifted between members, goods from each other could flow more heavily and smoothly. Members would purchase more products from each other. The elimination of tariffs lowers the prices of goods, as a result consumers could demand more goods. The removal of quotas means more products could be exported to each other. The possible attainment of economic benefit is a powerful selling point of FTAs.

Members who are already each other's major trading partners might experience greater increase in trade flows between them than members who do not have much prior trade. The existing channels of contact between producers and buyers of FTA members who have been major trading partners would allow them to respond quickly and smoothly to the increase in trade flows following the formation of the free trade area.

On the other hand, a free trade area that does not have members who are major trading partners of each other would not have much contact between producers and buyers, so that their trade flows are limited. Members might not even have many kinds of products to trade with each other. Thus members who do not trade much among themselves before the creation of the free trade area might not see substantial increase in trade flows following the signing of a FTA.

The attainment of economic benefit is not the only motive for countries to sign FTAs. Countries could also consider the improvement in political ties as another reason for their desire to form FTAs. Jeffrey Schott has stated that Taiwan has wanted to sign a FTA with the United States because it could increase the United States' political support for Taiwan. He has further related that the U.S.-Israel FTA has served as a way to fortify the political ties between the United States and Israel (Schott 1989, p. 30). Senator Max Baucus has said in his introduction to the U.S. Senate on the legislation to establish a US-Taiwan FTA that there are both political and economic reasons. He has stated that the U.S. has exported more than goods and services. The U.S. has backed freedom and democracy globally as part of its trade policy. He has added further that Taiwan shares these democratic values. A US-Taiwan FTA is a way for the U.S. to support Taiwan who has shared U.S. values (Baucus 2001).

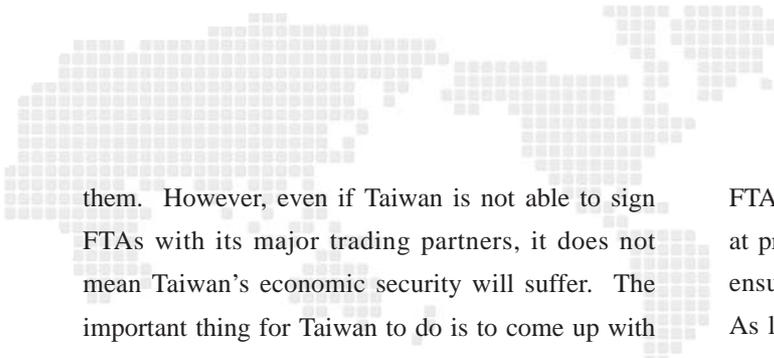
Countries could also create free trade areas to stimulate multilateral negotiations. The purpose is to exert pressure on nations to make concessions during multilateral trade talks to liberalize international trade. Free trade areas could serve as catalyst for growth in world trade (Srinivasan, Whalley, and Wooton 1993, p.73). If more FTAs are signed in APEC and other regions, the various free trade areas could be combined into a global free trade area. The linking of free trade areas would accomplish what the multilateral approach could not achieve yet, the existence of international free trade. Robert Lawrence has stated that "If regional arrangements are crafted as open and designed to reinforce rather

than resist market forces, they will inevitably become building rather than stumbling blocks in the move towards a more integrated global economy (Lawrence 1991, pp.34-35).

The Effect of FTAs on Taiwan's Economic Security

Let us examine the effect of FTAs on Taiwan's economic security. Certainly, if Taiwan is able to sign FTAs with other countries, there will be an overall improvement in Taiwan's economic security. The major reason is that trade between Taiwan and its partners would increase after they have create free trade areas with the elimination of trade barriers. Economic and political cooperation would intensify between Taiwan and other countries when they have signed FTAs. The current new age FTAs not only eliminate trade barriers but also enhance trade facilitation, information technology cooperation and any kinds of economic cooperation that are considered significant for improving economic security. Political cooperation is also improved because government officials would have to meet more often after the signing of FTAs. In addition, members of free trade areas are more likely to support each other because their economic and political relationships have strengthened. The enhancement of economic and political relationships leads to the improvement in economic security. Therefore, Taiwan is seeking to sign FTAs with other countries because FTAs would advance Taiwan's economic security.

Currently, Taiwan has only signed a FTA with Panama. Certainly, Taiwan would like to sign FTAs with other countries but has not yet made any progress. This paper would also like to state that if Taiwan is able to sign FTAs with any country, then Taiwan should sign FTAs with countries that would improve its economic security the most. There are two countries that come to mind and they are the United States and Japan. The reason is that both of these countries are Taiwan's major trading partners. Taiwan's political relationship with the United States and Japan would also improve if it signs FTAs with



them. However, even if Taiwan is not able to sign FTAs with its major trading partners, it does not mean Taiwan's economic security will suffer. The important thing for Taiwan to do is to come up with other actions for improving Taiwan's economic security.

Suggestions for Taiwan

First, in order to decrease the impact to Taiwan's economic security for not being able to sign FTAs with major trading partners, Taiwan would need to do as much as it can to ensure that the WTO Doha round of trade negotiations is successful. A result of further multilateral trade liberalization is that FTAs would have less impact for non-members. The major trading countries and members of WTO know that they need to make sure that the Doha round is concluded successfully.

Second, Taiwan would still need to let its major trading partners know that Taiwan is willing to sign FTAs with them at any time. Even if Taiwan is not able to sign FTAs with them at the moment, the situation could change in the future. In addition, since FTAs could improve Taiwan's economic security, Taiwan must be willing to offer substantial benefits to its major trading partners when negotiating FTAs.

Third, APEC has discussed the possibility of creating an APEC free trade area consisting of APEC members. Certainly, if an APEC FTA becomes a reality, then Taiwan's economic security would greatly be enhanced. The reason is that some of Taiwan's major trading partners are members of APEC, such as China, Japan and the United States. However, the likelihood of an APEC FTA is extremely low, because APEC members want to concentrate on the WTO Doha round. In addition, the negotiation process needed for an APEC FTA would be complex and time consuming. As a result, the suggestion for Taiwan is to maintain the idea of an APEC FTA at the moment.

Fourth, since the possibility of Taiwan to sign

FTAs with its major trading partners is not optimistic at present, the suggestion for Taiwan is that it must ensure that its industries are globally competitive. As long as Taiwan's products are competitive, other countries will continue to import goods from Taiwan. The result is that even if Taiwan does not sign new FTAs, its economic security will not be affected.

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The Feasibility of Cross-Strait Common Market

Shunyo Liao

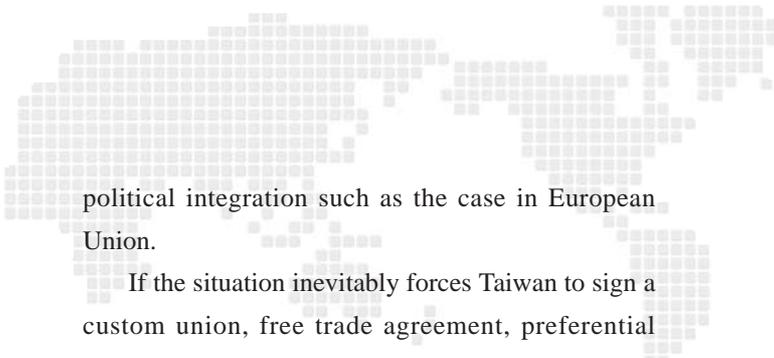
The idea of launching a cross-strait common market proposed by Chairman Lien Chan of the Chinese Nationalist Party (KMT) resulted in his recent visit to China has drawn attentions from scholars, experts and mass media. Although interested parties have vigorously discussed and debated upon the cross-strait common market related issues, a significant gap of perceptions regarding the concept, definition, and operation of common market between academia and reality under WTO frameworks does exist. It is necessary to clarify the vague area before making a decisive closure on this matter.

When it comes to the scheme of common market, the European Union that operates in the form of a single market often comes to our minds. From a scholarly perspective, the scale of economic integration of a common market is relatively broader than a free trade agreement, a service agreement, and a preferential trade arrangement. In a politically correct sense, the extent of a common market is between a custom union and an economic union. All contracted member economies of a custom union adopt a common set of tariffs towards non-members. However, an economic union would go one step further by allowing the free flow of goods, humans, and capital within the contracted area whereas implementing collective fiscal and monetary policies in addition to a common set of tariffs. The European Union is an unprecedented example of the economic union.

The definitions above are theoretically correct, but they are inconsistent with the present reality under WTO framework. Instead of espousing the cliché and bookish definition, the WTO framework goes for a more matter-of-fact explanation of a common market. WTO illustrates all possible forms

of regional economic integration as “regional trade agreements.” There are only four types of regional trade agreements posted in the WTO website, namely, custom union, free trade agreement, preferential trade arrangement, and service agreement. Under the WTO framework, there exist at least five economic integration examples adopting the name of common market; nonetheless, their scales of economic integration show a considerable discrepancy. To name a few: WTO categories “The Common Market for Eastern and Southern Africa (COMESA)” as a preferential trade arrangement with respect to the Enabling Clause. WTO groups “Central American Common Market (CACM)” as a custom union a propos GATT XXIV. Furthermore, WTO sorts “Caribbean Common Market (CARICOM)” as a service agreement on the subject of GATS V.

All of these common markets above adopt the term, “common market,” but differ in terms of the scale of economic integration. It is obvious that WTO recognizes all of them as regional trade agreements and leaves the contracting parties to freely characterize the integration scales. WTO grants all members a full degree of freedom to sign regional trade agreements whereas the contracting parties need to submit the agreements for WTO’s inspection and approval. From this regard, the proposed cross-strait common market is not necessarily identical with a scholarly defined common market. Under the framework of WTO, European Union is not an apply-all prototype but a unique case. Therefore, the pattern of European Union is not the only one model for designing the cross-strait common market. It means that the proposed cross-strait common market does not automatically accelerate the pace of bilateral



political integration such as the case in European Union.

If the situation inevitably forces Taiwan to sign a custom union, free trade agreement, preferential trade arrangement, or service agreement with China, it is more feasible to conduct the agreement under the framework of WTO. The reasons are: first, a cross-strait common market exists under the WTO framework can prevent other WTO members from objecting to this agreement signed under table; and second, it is the way to secure Taiwan's status as an independent custom territory versus China's under the scaffolding WTO structure. Regarding another possibility of signing a "Closer Economic Partnership Arrangement (CEPA)" between Taiwan and China, Taiwan needs to reject the layout of China-Hong Kong CEPA. It is because the China-Hong Kong CEPA purposely includes the clause of "one country, two systems" in the text. Therefore, Taiwan will not accept a Cross-strait CEPA similar to the existing China-Hong Kong CEPA with the clause of "one country, two systems". In case China expresses goodwill and is willing to forgo the clause of "one country, two systems" in regional trade agreement with Taiwan, Taiwan may begin to seriously consider the feasibility of Taiwan-China common market, either in the form of free trade agreement, preferential trade arrangement, or services agreement. Moreover, the content of common market and other ongoing regional trade agreements make no distinct difference regardless of "one country, two systems."

Taiwan may start to negotiate with China regarding building a potential cross-strait common market under two conditions: first, the cross-strait common market shall follow the regional trade agreement rules under the WTO framework; and second, the clauses of cross-strait common market shall not incorporate terms related to political issues but remain a 100% economic dimension with mutual benefits.

Social Economy: The Third Sector, Employment and Local Development

Florencia Huang

The purpose of this article is to discuss the third sector employment as a mechanism for social welfare maintenance, employment and local development. This initiative has been approved as one of the best effective methods for community based employment in western countries.

Social Economy

The notion of Social Economy was firstly proposed by European countries. The term was introduced in 1989 when European countries, based on Marx's concept, took social economy as an extension of socialist economy.

Social Economy refers to earning for a living based on satisfying social demand generated in the community and uses it as a driving force for development of socio-economic reconstruction. Its existence is due to both governmental and market failure since such a failure had generated a gap between local demand and service supply (Laville, 1998). This kind of social demand commonly refers to social services, for example home care, health insurance, environmental protection and etc. It is precisely due to its complex and peculiar characteristic that makes it difficult for government to develop a policy, so is the private sector as it lacks profit driven factors. Thus, the social economy concept was proposed to deal with the existing problem.

For a long history, the western countries have been dealing with social welfare issue for decades. Nevertheless, for the influence of neo-liberalism, the government's role to offer direct subsidy for unemployed has been questioned. In consideration of budget constraints, this argument was further intensified in those European welfare countries. In the 1980s, countries began to take reform in

approaching towards a small government. Most governments chose to "outsource" part of public goods to informal sector in order to downsize structure and condense budget. This had led to the rise of the third sector, i.e., organizations which provide goods and services not based on the profit maximization principle (Laville, 1999), as a supplement of government's role to supply public goods in community. Therefore, according to the European definition, the third sector stands for association, cooperatives, foundation and mutual societies^oKetc, in which represent interest, advocacy and raising public awareness of specific issues (Laville, 1999).

People might question, why pick up the third sector as a mechanism for local development? It is mainly because of the multi-purposes that the grass-rooted third sector in communities could possible offer. We are going to review those advantages of the third sector employment as follows.

Multi-Purposes for Third Sector Employment and Community Development

The third sector has proven to be one of the effective ways for employment creation and community development in many countries. This is due to its multi-purposes, namely:

Social Inclusion

The third sector is an employment policy tool to incorporate the long-term unemployed into the labor market. The function is to enlist unemployed in Public Employment Service, and then to offer them jobs as demanded in the projects of the third sector. By doing so, it could reduce unemployment rate and social exclusion problem (Campbell, 1999). Hence, the society will converge to solidarity and stability.



This would also facilitate economic development and social integration.

Employability

Labor training is a key dimension in Active Labor Market Program. From an economical perspective, to enhance the “employability” is effective way to enhance human capital, since labor is a major production factor, especially in the knowledge-based economy. From this point of view, the third sector could offer unemployed a job opportunity, so that to let them be accessible to jobs, and to “learn from the job” (Campbell, 1999) rather than joining long-term training program. Since “training” is not considered cost-effective and since often it does not guarantee a job in the economic recession period (Betcherman, 2000). To sum up, the third sector employment could offer a real experience for labor’s professional formation.

Job Creation in Community

The third system normally is community basis (Borzaga, Olabe and Greffe, 1999). This is to say, most of its participants come from communities. This formation of components is essential for job creation due to existing “asymmetric information” (Campbell, 1999) in the community. Many experts reiterate that symmetric information is the way to ensure that local demand and supply is effectively connected. The third sectors suppose to have better community-based knowledge than public sector. Therefore, they could identify the existing local need, and transfer the need into demand. On the other hand, they could offer “content related” (Campbell, 1999) services in communities to satisfy particular requirement, and develop closer relationship based on “trust” in locality.

Community Based Emergency Preparedness

Many literatures have discussed establishing emergency preparedness through community-based

organization. Above all, the third sector plays key role in it. This is due to the third sector’s efficient mobilization when there faces with an emergency. This is to say the third sector could supplement the government’s delay for crisis preparedness. In other words, the third system could be the first defense line in the community.

Income Redistribution

From the government’s point of view, the third sector employment is essential for redistribution of income. This is based on the fact that free market competition could not guarantee equal distribution of resource and income (Alesina, Danninger, Rostagno, 1999). Based on this theory, some countries regard the third system employment as a mechanism for income redistribution, because only through this indirect subsidy could government rationalize its intervention.

Democratic Participation of Community in Policy-making Process

The third sector could cultivate community leaders through voluntary participation from bottom-up approach (Borzaga, Olabe and Greffe, 1999). This enables local elites to join community policy-making process, so as to enhance civil participation. The latter is considered as a main character of democratic society.

Taiwan’s Multi-Employment Promotion Project (MEPP)

Taiwan started to launch the third sector employment project after the 921 Earthquake. It was urgent for reconstruction in affected areas. Thus, the government launched the “921 Earthquake Rebuilt Project”, and this was furthermore expanded to the national level. In 2001, the Council of Labor Affairs promoted “Sustainable Employment Engineer Program” and further in 2002, “Multi-Employment Promotion Program” (MEPP) was introduced after integrating European Union’s The Third System

(TSO) experience. The core value of MEPP is to connect social services with economic development in community, while aiming to increase socio-economic labor right, and establish social security network for disadvantaged people.

As mentioned above, active labor market program like MEPP implies multi-objectives. The system's function is bi-track. Normally, unemployed could register in Public Employment Service (PES) to receive employment information. On the other hand, the third sector could propose projects as long as not to displace private sector's service. Taiwan's MEPP experience has shown that the best practice exists in home care, aboriginal handicraft and ecotourism area.

Although Taiwan's third sector is not as mature as in the European countries, the project still has its added value. Overall, western experiences have demonstrated that the third sector could run independently in five years' time. This implies the possibility for the third sector to transfer into social enterprise or micro enterprise in the future.

To sum up, regardless of how intensified the impact of globalization to labor employment and local economy, social economy is deemed as a feasible alternative for community development, in which the third sector could play an essential role to stimulate economic activity.

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The Influence of the Neo-tributary System on Asia-Pacific Regionalism

Kyle K.Y. Fan

With the increasing political, economic and military capabilities of China, the emerging China has become the contemporary hot topic in the world. Most of the researches focus on the “role of China in the future”, “China as a threat or as a friend”, “how to exploit the market of China”, and “the inner problems of China”. Indeed, these are important areas to observe in the rising China. In this article, I try to analyze China from a different dimension-“Tributary system” approach. I want to infer how this system will influence Asia-Pacific regionalism.

Contemporary China-centered Tributary System in Asia

Historically, China has strong cultural and political ties with countries around it, for example, Japan, Korea, and Vietnam. Due to the strong military power and the outstanding Confucianism, China built up a China-centered Tributary system since the Ming Dynasty. Finally, the system corrupted with the decline of Qing Empire. China’s Ming / Qing tributary system was based on three cardinal points (Cheow,2004), as follows: 1) China considered itself the “center heart” of the region; this tributary system assured China of its overall security environment; 2) China needed a stable external environment, immediately surrounding the Kingdom, so as to ensure its own internal stability and prosperity; and 3) The Chinese emperor, as the “heart”, would in principle give more favors to tributary states or kingdoms than receive from them; for his “generosity”, the emperor gets their respect and goodwill.

Again, the tributary system rises with the emerging China. Although some people would take rising China as a threat, they still could not resist the

charm of China’s unexploited huge market. At the same time, China tries to use some preferential trading measures and security commitments to convince surrounding states that China is not a threat. Under this circumstance, some countries like ASEAN states, North Korea and South Korea are willing to follow China’s command, not only in economic dimension, but also in diplomatic dimension. For example, recently, the six party talks hosted by China got consensus on the North Korean nuclear weapon issue that America has dealt with for a long time. Many countries considered that it is a triumph of China’s diplomacy, and also it proves the influence of China on North Korea. This is just one of the case, other scenes also show Chinese leadership in East Asia, for instance, the ASEAN+3, and Boao Forum for Asia °Ketc.

If we look at this atmosphere, we could find out that a new China-centered Neo-tributary system has been made.

Neo-tributary System Versus Asia-pacific Regionalism

In fact, Asia-Pacific regionalism is still in a developing phase. It is still growing its own sense of community through APEC. But there are still some controversies about APEC’s future, for example, “should it continue to be a forum or be a negotiation framework?” and “who should be the leadership?” etc.

The neo-tributary system could have some influence on Asia-Pacific regionalism. First, it could affect the competition for leadership in Asia-pacific region. Both Japan and America seek to get the leadership in this region. China is no exception, China always tries to be the hegemony of Asia

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(China Times, 2004), and to balance the influence of Japan and America in this region is one of the reason that China joined (Ravenhill,2001:112). Rising China may imply the influence decline of Japan and USA., so for struggle of power, Japan and America would not let go, it means there would be a more complicated competition in this region.

Second, it could influence the shift of preference between APEC pillars. There are three pillars of APEC, they are liberalization, facilitation and ECOTEC. Under the influence of America and Japan, trade liberalization has been de facto primary pillar among three. But, we have to notice that China always stress that ECOTEC and facilitation of trade and investment should be the leading pillars, so that might change the direction and function of APEC in the future.

Third, the neo-tributary system could shift the focus from Asia-Pacific regionalism to East Asia regionalism. Former Malaysian Prime Minister Mahathir proposed the idea of “East Asia Economic Group” in the end of 1990, which was to compete with APEC. It failed at the end, but it doesn’t mean it would not come to reality in the future. China has long been more supportive of East Asia regionalism rather than Asia-Pacific regionalism. China was one of the supporters of East Asia Economic Group (Ravenhill, 2001:109), and now, no matter its performance in ASEAN plus three or CEPA, they all prove that China prefers East Asia regionalism to APEC. As a result, the formation of the neo-tributary system may imply the shift from Asia-Pacific regionalism to East Asia regionalism, which means a more passive scenario for APEC.

Conclusion

Rising China is building a China-centered system in Asia. The challenge we have to face is its influence on APEC, how to deal with the competition of major powers, the development direction of APEC and the survival of APEC. These issues should be considered seriously. If APEC is to survive, should it change its function to meet the demand of new regional society? Or if APEC failed,

what kind of attitude should we take regarding East Asia economic bloc? These questions are what we ought to care about in the future.

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