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C. Fred Bergsten and the World Economy

by Michael Mussa (editor)

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This edited volume honors C. Fred Bergsten on the 25th anniversary of his founding of the Peterson Institute for International Economics (originally the Institute for International Economics). The book does double duty both as a *Festschrift* presenting original analysis and as a systematic review of the contributions of Bergsten and the Institute's research program to international economics and public policy. The book is edited by Michael Mussa, a senior fellow at the Institute. All of the authors are Institute fellows.

The title is an apt one because Bergsten has devoted his admirable career, now over 40 years, to understanding and strengthening the world economy. The title, no doubt, was also chosen to be reflective of Bergsten's authorship of: *The United States in the World Economy: Selected Papers of C. Fred Bergsten, 1981–1982* (1983); *America and the World Economy: A Strategy for the 1990s* (1988), and his lead authorship of *The United States and the World Economy: Foreign Economic Policy for the Next Decade* (2005).¹ Bergsten continues to serve as the Institute's Director with boundless energy and unflagging optimism.

Readers interested in policy entrepreneurship will find this a valuable volume. The lead chapter by Mussa titled 'C. Fred Bergsten: Intellectual Entrepreneur' discusses Bergsten's role in management and development of the Institute which is now considered 'the world's leading think tank for the analysis of international economic policy' (p. 1). Economists in other countries that want to use the Institute as a model can gain many good ideas from this book. Indeed, the chapter by I. M. Destler and Marcus Noland relates how two visiting scholars from South Korea each acted subsequently to establish think tanks in Korea inspired by the Institute (p. 28).

Likely though, the most valuable lessons one could get from 'Bergsten on Management' are not in the book because they would have to be written by Bergsten himself. Washington insiders have marveled for years about Bergsten's ability to be quoted and to be quotable, and his excellent timing in commissioning and releasing

¹ The title also mirrors other important volumes published by the Institute such as C. Fred Bergsten and Inbom Choi (eds), *The Korean Diaspora in the World Economy* (2003).

cogent new studies just before a new issue reaches the policy formulation stage. Unlike other think tanks in Washington that generate position papers as their primary product, Bergsten insisted from the beginning that the Institute's primary work product was to be a sophisticated, fact-based written study, subject to examination through a peer review process.

The topic of effective policy analysis is also covered in a wise chapter by J. David Richardson titled 'Wanted: More Effective Public Communication in Empirical International Economics'. Richardson explains: 'Well-researched, well-documented, comprehensive, and engaging research is the natural survivor *and* the natural enforcer in the policy realm, especially when authors are able to effectively present their findings and recommendations in testimony, press briefings, and more generally in the nonprint media' (p. 356). Richardson offers some advice based on observing Bergsten closehand and from his own long experience in the arena. One is the need for 'memorable cogency that goes into effective communication, compounded in the case of international affairs by cultural lingual nuance' (pp. 356–357). Another is the hard task of 'double writing', meaning to rewrite peer-reviewed publications for the public policy community (p. 357).

Several of the chapters cover world trade: The chapter by Destler and Noland discusses some constant themes in Bergsten's writings in favor of trade liberalization such as the bicycle theory (that is, the proposition that unless liberalization constantly moves forward through negotiations, there will be a fallback to protection), the importance of macroeconomic policy balance, the value of competitive liberalization through preferential trade arrangements, and the need for economic adjustment assistance. A superb chapter by Howard Rosen, 'Trade Adjustment Assistance: The More We Change the More It Stays the Same', reviews the history of this troubled yet important US government program, and offers a package of recommendations for improving it. Rosen's chapter is timely because, as this book review is written (August 2007), the Congress is considering reauthorization of that program. A chapter written by Kimberly Ann Elliott on economic sanctions gives cautionary advice on the use of sanctions and puts forward some ideas for how to make them more effective. Two of the Institute's best-known authors, Gary Clyde Hufbauer and Jeffrey J. Schott, contributed a chapter on contemporary trade policy that summarizes the main findings of Institute-sponsored studies. The chapter provides an intellectual roadmap to anyone new to the field as well as to seasoned analysts. The chapter is slightly marred, however, by the question for the future posed in the last paragraph: 'Finally, will the WTO sputter as an engine for liberalization and take a long slumber, reminiscent of the ILO [International Labour Organization] between 1930 and 1990?' (p. 57). Embarrassingly, the premise of the question is wrong; the ILO was hardly in slumber over those 60 years. Indeed, in perhaps the darkest hours of the ILO's history, during the Second World War, the ILO published some influential studies on the postwar international economic architecture.²

² See, e.g., ILO, *Intergovernmental Commodity Control Agreements* (Montreal: ILO, 1943); ILO, *Future Policy, Programme and Status of the International Labour Organization* (Montreal: ILO, 1944); ILO, *The Organisation of Employment in the Transition from War to Peace* (Montreal: ILO, 1944); Eugene Staley, *World Economic Development: Effects on Advanced Industrial Countries* (Montreal: ILO, 1945).

International investment is discussed throughout the book and is given reconsideration in a thoughtful chapter by Edward (Monty) Graham. Graham reviews the long-time efforts to establish an international investment regime and concludes that the case for doing so still stands because such a regime could enable higher global economic welfare. He notes, however, that the investment rules in leading trade agreements provide for a right of establishment which is a different focus than economists had 30 years ago.

Another significant piece in the book is authored by Martin Neil Bailly and Robert Z. Lawrence and titled, 'Competitiveness and the Assessment of Trade Performance'. Quite rightly, this chapter starts by noting that 'No one has worked more extensively on the issue of US competitiveness than C. Fred Bergsten' (p. 215). The chapter presents a perceptive overview of the work of the (US) Competitiveness Policy Council, which Bergsten chaired throughout the Council's existence from 1991–1995. The meat of the chapter is an analysis of the impact of trade on living standards in the United States. The authors conclude that 'While any loss of trade performance is troubling, our analysis indicates that the impact of the change over the past 25 years has not been very large, accounting for 1.2 percent of GDP' (p. 237). The real problem, according to the authors, is the fact that 'most of the benefits of growth have gone to the top half or even the top 1 percent of the income distribution' (p. 237). They conclude: 'Globalization certainly gets more of the blame for this than it deserves. But if political support for globalization is to be maintained, more of the benefits must be shared with more of the people' (p. 237).

Of the many gems in the book, I especially liked the chapter by C. Randall Henning, 'Institutional Strategy for the World Economy'. Henning gives an overview of Bergsten's roles in the US government, in transnational activities such as chairing the APEC Eminent Persons Group, and as a scholar, and then characterizes him as an exemplar of the 'second generation' of postwar economic internationalists (p. 334). (The first generation were the individuals who constructed the Bretton Woods system and the GATT.) The second generation strategy, according to Henning, emphasized the importance of insulated international institutions for strengthening domestic political coalitions in favor of open economies. One technique used is what Henning called 'scapegoating' (p. 338), whereby an enlightened, elected official blames the GATT/WTO or the International Monetary Fund for having to impose domestic policies that are unpalatable to the public or to vested interests. Henning argues that, as time went on, such second generation policies began to generate significant disadvantages that contributed to the 'backlash' against globalization. He suggests that the period 2005–2007 'could well mark the end of the road for business as usual under the second-generation institutional strategy' (p. 342). Henning does not lay out a vision for renovation to a third generation strategy. Nevertheless, he does offer a few sage suggestions, such as that 'it is vital to strengthen the international organizations themselves by addressing their problems of legitimacy and accountability, by giving them links to and constituencies in domestic politics, and by developing alternative, international mechanisms of accountability' (p. 348).

Finally, several chapters in the book discuss the international monetary system and Bergsten's contributions to policymaking and scholarship in that field. The authors include several of the Institute's all-stars: Morris Goldstein, John Williamson, Edwin

M. Truman, and Michael Mussa. In addition, the book contains a chapter by William R. Cline titled 'International Debt: The Past Quarter Century and Future Prospects'.

The panoply of issues addressed in the book reinforces its value for practitioners and scholars.

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Dancing with Giants: China, India and the Global Economy

edited by L. Alan Winters and Shahid Yusuf

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From the ranks of high-level policymaking to water cooler conversations over the fears of labor offshoring or the safety of children's toys, China and India are a major topic of discussion and debate around the world. The same is true for scholars of the international trading system – knowledge about where these *giants* came from and questions about where they are going are increasingly important areas of research. From this perspective, *Dancing with Giants* is a volume that presents a self-contained, accessible economic account of the recent rise of China and India as well as some economic projections and global implications for their futures.

The aim of the volume, as stated by the editors in the introductory chapter, is to 'highlight some of the major implications of the Giants' growth for the world economy and hence for other countries... it is about dancing with the Giants without getting one's toes stepped on'. Given this goal and the book's relatively short length (272 pages), the topics covered by the seven chapter volume are very comprehensive. They include the relative importance of the manufacturing and industrial sectors, the external (trade-based) winners and losers in the global economy associated with China's and India's growth, the extent and structure of the two countries' international financial market integration, the environmental impacts of each economy's decision on how to fuel its underlying growth through the use of various forms of energy, the relationship between economic growth and inequality within China and India, and the underlying characteristics (and implications) of each country's economic governance.

One analytical theme that unifies the chapters is the focus on other *developing* countries. The authors have been charged with not only examining the Chinese and Indian historical experience and projecting their futures, but also generating insights and implications for other poor countries. Along the dimension of the 'toes getting stepped on' metaphor provided by the title, the authors examine questions like, as China and India move into the future, what are the problem (negative) and possibility (positive) externalities most likely to affect my country? For example, in the chapters on industrial activity and trade, the authors discuss how changes in China's (and India's) trade patterns and the mix of their imports and exports (and connectivity to global production networks) are likely to impact the industrial activity and trading patterns of other local countries.

Second, a number of the authors also take their analysis in a complementary direction by examining the implications of Indian and Chinese policy choices and whether there are also important policy *lessons* that other developing countries may learn from