

FROM THE EDITORS

Few topics could inspire more timely discussion this year than global financial reform. In 1998, we witnessed a significant challenge to the outward-oriented trade models of the high performance Asian economies, including Thailand, South Korea, and Indonesia. Russia's economy teetered on the brink of disaster, and Latin American government leaders negotiated difficult austerity packages with the International Monetary Fund (IMF) to help their countries stave off what became known as the Asian Flu. Through these experiences, we have learned about some of the pitfalls of the increasingly integrated global economy and explored potential measures that could help avoid, or at least mitigate, the effects of future economic disasters. Finally, we have watched the progress of the affected countries' economic disaster recovery and prevention strategies, and we have seen how governments and international organizations impact market health.

In our opening article, **JEROME I. LEVINSON** argues that the international financial system itself is to blame for recent economic crises. He uses the 1980s debt crisis in Latin America and the 1994 peso crisis in Mexico to describe the dubious foundations on which the international financial system is built. He then compares those experiences with the current economic crisis primarily affecting East Asia. He blames the system for its "fundamental inequity," arguing that government agencies' and international organizations' public policy choices have placed an undue adjustment burden on U.S. workers and borrower countries.

BARRY EICHENGREEN addresses the problem of moral hazard as governments and international institutions struggle with financial crises. He finds that, left to its own devices, the market is certain to cause economic failures. Institutional and contractual arrangements encouraged by governments and international financial organizations are necessary to ensure public welfare.

LAURENT JACQUE, like Eichengreen, asserts that the origin of the Asian financial crisis lies in the private sector. The private sector misallocated financial resources, while governments looked on and lent their approval. Once crisis hit, inappropriate Western-style policies, aimed to improve economic conditions, only worsened the situation.

WARREN COATS argues that an accumulation of unproductive investments in East Asian economies led to a decline in international competitiveness. Increased bank portfolio risks heightened the danger of loan defaults as macroeconomic conditions deteriorated.

ADAM S. POSEN criticizes Japanese policymakers for their inaction in averting economic crises in that country. He argues that policymakers in Japan and elsewhere must learn from the Japanese crisis and consider the future implications—domestic and international—of political inaction. To that end, policymakers must develop forward-looking policies to revive or maintain their economies and financial systems in order to avoid disaster in the international economy.

CEM KARACADAG and **BARBARA SAMUELS II** argue that the private sector's inadequate country risk analysis is at the heart of the Asian financial crisis. The market lacked the information it required in order to function properly, leading to high risk cross-border lending and investment in the region.

Two articles are dedicated to the analysis of a non-Western alternative system in Islamic finance. **GOHAR BILAL** explains the origin and nature of Islamic banking, focusing on its fundamental characteristic: the element of risk sharing between borrower and lender. **JEAN-FRANÇOIS SEZNEC** explores the benefits and complications involved in utilizing Islamic instruments in the current international marketplace.

In our Issues and Policy section, four authors explore pivotal issues affecting the international system. **CHARLES ROBERT DAVIDSON** explains the changing nature of political leadership in the Palestinian-controlled territory. Describing the circumstances that placed Chairman Yasser Arafat and his governing structures at odds with more democratic civil organizations, Davidson examines the steps necessary to bring national and subnational organizations together to form a lasting democratic government.

BASSAM TIBI argues that the end of the Cold War has opened up the political arena for the formation of a new political order in the Middle East. He describes how tensions between elites and Islamist counter-elites are rising as both try to define the basis for such an order. He contends that more moderate trends in secular government could mitigate the force of current radicalism in the region if Western powers would step back and allow the Arab states to determine their own political futures.

IAN A. BOWLES and **CYRIL F. KORMOS** examine the U.S. Congress' new impact on international organizations and national government bodies such as the U.S. Treasury. Using Congress' impact on World Bank environmental reforms as a case study, they argue that this recently adopted congressional power—when used appropriately—could add leverage to U.S. calls for change within multilateral institutions. **BABAK NIKRAVESH** investigates the expanding legal roles of sub-state actors in

international politics. Nikravesch presents Quebec and Tatarstan as currently evolving examples of how federal states and their components negotiate status in the international legal system.

In our Reviews and Commentary section, **AGNÈS HUBERT**, visiting European Union fellow at The Fletcher School of Law and Diplomacy, argues that the introduction of the euro will have a profound impact on EU-U.S. relations. She explores political and economic challenges that the two international players face and wonders if they are prepared to contend with the changing dynamic of their relationship. **MILTON EZRATI** looks at how increasing public frustration with the government in Japan is forcing political and economic reform in a system that does not easily adopt change. We present book reviews on President Nixon's foreign policy, U.S. and European policy approaches toward the Middle East and the nature of conflict in the twenty-first century.

The Fletcher Forum wishes to thank a number of people for helping us make this issue a reality. Our authors have contributed significant articles to this issue and to their respective fields, and we are grateful for the opportunity to work with them. Our editorial board and staff generously contributed their time, energy and enthusiasm to all aspects of the journal. Our advisory board has been an invaluable source of guidance throughout the editorial process. We extend our warmest thanks to the faculty, staff and administration at The Fletcher School of Law and Diplomacy who have consistently supported *The Fletcher Forum* since its first issue in 1975. Without their support, the publication of *The Fletcher Forum* would not be possible. Finally, we wish to thank our readers for providing the challenge and inspiration for this and future issues of *The Fletcher Forum*. ■

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