BOOK REVIEWS


So much has been written on the global financial crisis of 2008 that there now appears to be a veritable cottage industry. Much of the burgeoning literature, however, has focused on the experience of developed countries—understandably so, given the fact that unlike other recent financial crises, the origins of this crisis are firmly located in the US. Yet, precisely because the crisis erupted in the US, its deleterious impact was much deeper and wider than any previous financial crisis, leaving no region untouched. The fallout from the crisis was particularly detrimental to Asia, especially in its early stage. The Global Financial Crisis and Asia, an edited volume brought by the Asian Development Bank Institute, makes a timely and important contribution to understanding the impact of the crisis on Asia and its implications.

The book is organized into four main sections. The first section, written by the editors, provides an excellent overview of the key issues raised by the crisis for Asian economies, the policy measures adopted by their respective governments in response to the crisis, and a set of recommendations for the future, the details of which are fleshed out in subsequent chapters from various angles. The second section offers two chapters reviewing the origins of the crisis in the US and its transmission to Europe. While this section may be useful to those unfamiliar with the gestation of the crisis in the US and its impact on Europe, readers interested in this book for its central theme will likely find it somewhat redundant. For those needing some refreshing, however, Bosworth and Flaaen offer a solid remedial course on the US crisis.

The third and fourth sections are where the real strength of the book is found, offering an impressive array of insightful analyses on the impact of the crisis on Asia and a series of cogent policy recommendations. In the third section, readers will find three chapters presenting a more general take on the crisis’ impact on the region and its policy responses, followed by five case studies on China, India, South Korea, Thailand and Malaysia. While the specifics of each case differ, there are nonetheless several common leitmotifs emerging from these case studies that weave nicely into the findings of the more general chapters. One is the export-dependence of the region on developed markets, which has been a source of both growth and vulnerability for Asia; another is the region’s continued exposure to the vagaries of short-term capital flows, which led to a severe liquidity crunch for
a number of countries and compelled at least one country, South Korea, to seek and obtain external assistance from the US; and a third recurrent motif is found in the region’s fiscal and monetary policy responses to the crisis, which, following a drastically different route from the Asian crisis of 1997, were aggressively countercyclical and made a big difference to the region’s relatively quick recovery.

Policy recommendations following from these common threads are interspersed throughout the book, but the last section offers expanded discussions on several areas, including financial policies, growth rebalancing, and reserve policies. An interesting issue emerges from the general orientation of the policy prescriptions presented in the volume, which has to do with the “decoupling” of Asia—the idea that the region, with deepening intra-regional economic integration, has been increasingly reducing its growth-dependence on advanced economies. The crisis shows, as argued persuasively by Athukorala and Kohpaiboon, that despite the huge rise in Asia’s intra-regional trade, its economic growth still remains fundamentally dependent on the import demand of developed economies, as the expansion in intra-regional trade has been driven by the fragmentation of vertically integrated production chain networks, whose final goods are ultimately destined for advanced economies. While Park takes a less pessimistic view on this, his prescription is nonetheless the same as those coming from other authors: to insulate itself from external shocks, Asia needs to shift its growth-dependence from extra-regional demand to domestic and intra-regional demand, a recommendation repeated elsewhere by numerous authors in their country-specific case studies and elaborated in more detail in Prasad’s excellent chapter on growth rebalancing.

Similarly, the crisis also exposed Asia’s continued dependence on extra-regional sources of short-term private financing, which is rather ironic given the fact that it is the Asian public sectors, through their massive reserve accumulation, that have been financing US consumption. The phenomenon of reserve hoarding is addressed in part by Eichengreen and more fully by Aizenman, both of whom recognize its drawbacks and suggest additional means to secure the region’s financial resilience, including strengthening regional monetary cooperation, especially the recently multilateralized Chiang Mai Initiative. In finance as in trade, Asia’s dependence on developed economies is recognized as the most important source of its vulnerability to external shocks, and regional cooperation once again is offered as the key cornerstone of the book’s policy recommendations.

The volume does have some weak spots. One rather curious omission, especially noticeable given the book’s title, is the lack of any substantive discussion of Japan. Although the editors discuss the difficulties faced by the Japanese economy briefly in their introductory chapter, it is rather perfunctory and out of place. This is puzzling, not only because of the importance of the Japanese economy in the region, but also because of Japan’s crucial political
role for regional cooperation advocated so forcefully by the authors. Another weakness is the lack of any consideration of the political dimension. Since the contributors are all economists, this is understandable, and my complaint may appear to be little more than a pet peeve coming from a political scientist. However, policy implementation is fundamentally a political process. While the book does an excellent job of laying down, persuasively and admirably, the economic grounds for Asia to wean itself of export-dependence and move toward greater regional cooperation, it is silent on the many political obstacles that will have to be surmounted for this to occur. For this, readers will have to turn to another book.

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This is a book about four Asian providers of foreign aid, namely Japan, South Korea, China and Taiwan. Generally the literature about foreign aid in English has focused on the old “Western” donors that are members of the DAC (Development Assistance Committee) of the OECD (Organisation for Economic Co-operation and Development). For a long time Japan was the only Asian member of the DAC, although South Korea has now joined it (at the end of December 2009). There has thus been a lack of knowledge and information about the development assistance coming from Asian donors. That is what the authors of this book are trying to remedy. The first part of the book describes the history, organization and functions of the four countries’ aid. The second part clarifies the relationship between the Asian donors, first by looking at the impact of the political and diplomatic competition between China and Taiwan over aid and second by looking at the competition between Chinese, Japanese and South Korean aid to Africa.

In the introduction the authors claim that no scholarly work has examined Northeast Asia’s aid donors as a group. This is not exactly true (see for example Jens Stilhoff Sörensen, ed., Challenging the Aid Paradigm: Western Currents and Asian Alternatives, Houndmills, Basingstoke: Palgrave Macmillan, 2010). And, although the number of studies in English might be limited, there are of course also studies in Asian languages.

One of the problems the authors face is the definition of foreign aid and what is to be counted as foreign aid. In the case of Japanese aid, the DAC definition, which is a restrictive one, prevails. This makes Japanese aid, which includes a good deal of loan aid, appear to be shrinking all the time, although gross disbursements in terms of US dollars have hardly been