BOOK REVIEWS

HOW FINANCE IS SHAPING THE ECONOMIES OF CHINA, JAPAN, AND KOREA. ***Edited by Yung Chul Park and Hugh Patrick with Larry Meissner.*** *New York: Columbia Business School Publishing (an imprint of Columbia University Press), 2013. xii, 364 pp. (Figures, tables.) US$60.00, cloth. ISBN 978-0-231-16526-6.*

This book consists of four chapters written by scholars from China, South Korea (Korea hereafter) and the US on the recent developments of financial and other institutional changes and their implications in China, Japan and Korea. The book also contains an editors' introduction. The three contributing chapters discuss the economies of China, Japan and Korea respectively and the last chapter discusses the role of banks in these countries. The five chapters of the book are as follows: chapter 1, "An introductory overview," by Hugh Patrick; chapter 2, "Financial reform in China: progress and challenges," by Yiping Huang, Xun Wang, Bijun Wang, and Nian Lin; chapter 3, "Ongoing financial deregulation, structural change, and performance, 1990–2010," by Edward J. Lincoln; chapter 4, "Financial development and liberalization in Korea: 1980–2011," by Yung Chul Park; and chapter 5, "Banking, capital flows, and financial cycles: Common threads in the 2007–2009 crisis," by Young-Hwa Scok and Hyun Song Shin.

While China, Japan, and Korea are all part of Asia, their economies are at different stages of development. Furthermore, these countries have distinct histories, institutions, political systems, and societal characteristics. This gives an interesting setting in which to study how differently these countries have reacted to international economic shocks of a financial nature, such as the Asian financial crisis of 1997–1998, and the United States-generated global financial crisis of 2007–2009, called the "Lehman shock of September 2008." Another financial shock that only Japan experienced is its financial bubble of the late 1980s which burst in December 1990. The Asian financial crisis prompted serious financial reforms in Korea, while Japan's financial bubble forced Japan to introduce many reform measures in its financial and corporate governance systems. The Lehman shock adversely affected the economies of these three countries as well as many others in the world.

Specific country chapters discuss how each of the three countries responded to these and other economic shocks using their financial policies. In chapter 2, Yiping Huang et al. emphasize the Chinese government's insistence on retaining substantial financial repression instead of implementing full liberalization in dealing with the shocks during China's reform period. In particular, low (depressed) interest and exchange rates are used by the Chinese government, essentially, as subsidies to investors and exporters. These repressive policies have also allowed the government to use the financial sector as a means for supporting economic policy (120). The authors show that the impact of such financial repression policies on economic growth was positive until the 1990s but became negative in the 2000s. The authors suggest the government undertake some level of liberalization in their financial policies to mitigate the negative effects of the current repressive policies.

Chapter 3 by Lincoln discusses Japan's financial deregulation activities during the 1990–2010 period. Given Japan's significant financial reforms (called the Big Bang reform) and their stated objectives in the 1990s after the bubble burst, expectations then were that the Japanese economy would move away from their bank-centred system to adopt a more market-oriented financial system and that Tokyo would become an active international financial centre. Neither has happened fully. While financially strong firms are able to issue bonds and other market-oriented debt instruments, weak firms continue to depend on bank finance. Japanese banks, many of which were nationalized in the 1990s, went through many mergers and acquisitions. Large banks were consolidated into three bank-holding companies, with significantly more monopoly power than before.

At the same time return on assets and return on equity remain considerably lower than in the United States. Corporate governance practices in Japan are not necessarily set up to facilitate corporations to maximize their profit either. For these and other reasons international firms may gradually shift activities away from Tokyo (Japan). Lincoln explains Japan's somewhat inward-looking financial sector using Japanese financial firms' poor English-language ability, high expat living costs in Tokyo, risk aversion, and group decision-making dynamics. This chapter also discusses the comparative advantages of a bank-centred system versus a market-based system which relies, for example, more on bonds and equity. It concludes that Japan will continue relying on the current bank-centred system for the near future.

Chapter 4, by Park, provides details of the four waves of financial reforms, 1980–2007, and their implications in Korea. Termed as one of the most repressive financial systems, many aspects of Korea's financial system were strictly controlled by the government (e.g., regulations on banks, non-bank financial institutions, interest rates, foreign exchange rates). The most serious external shock was the 1997 Asian crisis, which in the end forced Korea with no foreign reserve left to accept the liberalization measures required by the International Monetary Fund in return for their rescue funding.

The IMF-originated liberalization measures, combined with further liberalization measures introduced by the Korean government in 2007 as well as the 2009 Capital Market Consolidation Act, prompted Korea's financial system to become one of the more liberalized, open regimes in the emerging world (231). Korea's experiences of these financial-system reform measures are summarized in chapter 4 as follows: benefits including economic efficiency gains arising from the financial liberalization are hard to find, so far. Park attributes this to the fact that there is a limit to which a small emerging economy can open its financial sector. Once opened, the financial market can become a playground for international investors, international banks and non-banks. One possible reason for this might be that Korea was not properly equipped to accept foreign investors at the time of financial liberalization. But now Korea cannot go back to the pre-liberalization model.

The main theme of chapter 5 by Seok and Shin is the role of financial intermediaries (particularly banks) in the 2007 Lehman crisis in China, Japan, Korea, the EU, and also the US. They conclude that, during the 2007 Lehman crisis, the mechanics of the boom-bust cycle played out even more potently in the capital markets of the advanced countries than in the emerging countries. How about the benefits of financial globalization and the belief that capital inflows from overseas supplement domestic savings in financing investment, lowering the cost of capital, and boosting growth? The evidence seems mixed at best. Capital inflows may fuel permissive domestic liquidity conditions that fuel housing booms and consumption. Asset bubbles may be attributed to the excessive growth of assets funded with short-term debt, with a substantial part being denominated in a foreign currency.

The editors' preface states that the purpose of this book is to make definitive contributions to the financial histories of China, Japan, and Korea available to a wide audience. The editors have succeeded in their task.

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COMPARING INSTITUTION-BUILDING IN EAST ASIA: Power Politics, Governance, and Critical Junctures. ***Critical Studies of the Asia-Pacific Series. By Hidetaka Yoshimatsu.*** *New York: Palgrave Macmillan, 2014. xi, 231 pp. (Figures, tables.) US$100.00. cloth. ISBN 978-1-137-37054-9.*

This is a well-designed, well-organized and well-written scholarly work, which provides a systematic and comprehensive analysis of regional institution-building in East Asia, an interesting and important topic in the study of East Asian regionalism. The book clearly makes a useful contribution to the study on regionalism in East Asia.

In pursuing this important topic of regionalism in East Asia, the author thoughtfully proposes a comprehensive analytical framework, which combines some important factors at all of Kenneth Waltz's three levels of analysis, including power politics, nation-states' pursuit of national interests, policymakers' preferences, the role of non-state actors, and historical juncture. A major theme of the work is that while regional relations among nation-states are in the first place defined by power politics and a nation-state's