

Two Crises, Different Outcomes: East Asia and Global Finance.
Edited by T.J. Pempel and Keichi Tsunekawa. Ithaca, New York:
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As the two most significant financial crises to have hit the global economy in recent years, comparisons between the Asian Financial Crisis (AFC) of 1997–98 and the Global Financial Crisis (GFC) of 2008–9 were to be expected, not least by scholars of East Asia. The editors of this volume — two renowned and long-standing observers of the region — approached this task with two key questions: first, why did East Asian economies fare so differently in the two crises?; and second, to what extent is East Asia now on the brink of another economic “miracle” or at least sustained economic growth, after having weathered both crises so admirably?

On the first question, the general observation emerging from the volume, as summarized by its editors, is that the collision between national developmental strategies and the forces of global finance produced varying outcomes in the two crises. In the AFC, the developmental strategies of the East Asian economies left them vulnerable to global capital movements. Subsequent reform measures and conservative regulatory approaches to financial sectors in the region, which retained core elements of their existing developmental strategies, contributed to the “resilience” of these economies during the GFC. However, as these economies were deeply dependent on Western markets for their exports, they suffered on the trade front, when the economies of the crisis-hit Western countries contracted, but rebounded rapidly by 2010–11. On the second question, the volume on the whole expresses a measure of optimism on the region’s future prospects, bearing in mind the “dangers of excessively upbeat predictive hubris” (p. 16), and, more importantly, highlights a number of existing challenges that confront economies in the region. Indeed, the rich and complex observations and analyses on the latter alone should draw readers’ attention to this volume.

The book opens with two introductory chapters that sketch the context of the debate to which the volume speaks. T.J. Pempel’s chapter in this section deftly weaves Asia’s experience through both the AFC and GFC to demonstrate how changes in national-level policies interacted with developments in global finance to produce variation in outcomes, thus setting the scene for subsequent chapters to fill with detailed accounts of the experience of individual countries. Those who have followed the debates of

the AFC would be interested to learn that Pempel takes the view that the AFC “proved less that there was something fundamentally wrong with East Asia’s political economies” and more that they had “left themselves dangerously vulnerable to the rapacious scythe of global capital” (p. 29). Nevertheless, Asian governments learned valuable lessons from the AFC, thus explaining their better performance during the GFC. With that, Pempel argues that the region offers a lesson in the risk of minimalist governments and unfettered financial markets.

As a contrast to Pempel’s view and the earlier general observations about the volume, readers are directed to the chapters by Yun-han Chu and, in particular for readers of this journal, Thomas Pepinsky. Pepinsky also makes the point that the interaction of domestic political economies in Southeast Asia with developments in global finance contributed to the “non-crisis” of 2008–9. However, he does not believe that reforms post-AFC were helpful, in part because he argues that there was on the whole no significant change in the nature of political-business relations. Instead, he emphasizes the change in investors’ perceptions about the nature of these relations in Southeast Asia following the AFC, which contributed to the lower flow of foreign capital into the region in the 2000s, thus explaining the lower external vulnerability of the region prior to the GFC. Richard Doner’s chapter on the future of Southeast Asia’s export-oriented economies also provide an interesting contrast to the editors’ summary, as he is less sanguine about their futures, noting in particular that the “successful responses” to the AFC and GFC have perpetuated a developmental strategy that will undermine sustained growth in the face of emerging competition in the global economy. In other words, the crises were lost opportunities for deeper structural reforms that might have set these economies on stronger pathways. There are clearly on-going disagreements over forms of economic governance that would be appropriate for countries in the region.

The volume is thoughtfully curated. The remaining chapters provide in-depth and well-considered analysis of individual countries in East Asia, including chapters on Indonesia and Thailand. In the final chapter, the editors speculate on the region’s future, with three detailed alternative scenarios of its evolution (pp. 220–32): first, the “best-case scenario” would be a continuation of current political and economic conditions with the ability to successfully manage any serious problems that may be on the horizon; second, if East Asian governments are unable to manage vulnerabilities in their domestic

economies and political landscapes, as identified in the volume, and are unable to handle tensions in regional security, then the editors foresee a “collapse around the corner”; third, even if East Asian governments were able to successfully manage the short-term hurdles of the second scenario, the editors fear that longer-term impediments such as demographic challenges, increased demands for social spending, and questions surrounding the sustainability of current models of political economy, and thus economic growth, may lead to a “lost decade ahead”.

My only reservation is that the premise of the first of the volume’s two key questions — that is why East Asia fared better in the GFC when compared with the AFC — is a straw man’s argument. It seems to me that the answer is obvious, in that the “*Global Financial Crisis*” is a misnomer, which would be more accurately labelled as a combination of a “*Transatlantic Financial Crisis*” (notwithstanding the spill over of risk of currency flight in South Korea) and a “*Global Economic Crisis*”. Therefore, the basis for comparison on this score is somewhat tenuous as East Asia did not experience a financial crisis in 2008–9.

Nevertheless, the volume makes an invaluable contribution to the literature with its focus on the *political* conditions that explain the vulnerabilities of the East Asian economies and the political changes catalysed by both crises. The strong contributions from highly regarded experts in the volume provide vivid accounts with rich empirical detail of the unique vulnerabilities and strengths of each country that explain their different trajectories through these crises. For readers with a deep interest in understanding the causes and consequences of East Asia’s experience with financial crises since the late 1990s, I highly recommend reading this volume in conjunction with two others that have in common T.J. Pempel as an editor and Cornell University Press as publisher: *The Politics of the Asian Economic Crisis* (1999) and *Crisis as Catalyst: Asia’s Dynamic Political Economy* (co-edited with Andrew MacIntyre and John Ravenhill, 2008).

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