
***The Downsizing of Asia.* By Francois Godement.**
London: Routledge, 1999. Pp. 244.

From the author who penned *The New Asian Renaissance* — first published in France in 1993 — now comes one of the more stimulating books yet to appear on the Asian crisis: *The Downsizing of Asia*. Shooting from the hip, and taking no prisoners, Godement provides an insightful analysis of the events within — and phenomena surrounding — the severe economic downturn that ravaged East Asia during 1997 and 1998, before opening out the book into a more wide-ranging discursive piece on the region's fate. In the first part of the book, many of the theories pertaining to the Asian crisis are ruthlessly dissected and rejected by Godement, one by one. Indeed, it is the high velocity nature of the initial chapters on the Asian crisis itself that engaged this reviewer far more than the subsequent commentary on what the crisis may ultimately mean for Asian values, identity, and politics (each three of which are discussed in separate chapters). In this second part of the book, the text seems to lose its initial verve, and becomes a much less coherent rumination on Asia's perceived heritage, presence, and likely future.

To return to the initial chapters on the Asian crisis itself, the general sweep of analysis is eloquently worded and thought-provokingly ambitious: "From the twin defeat of the former Soviet Union and communism, the present world order has been constructed. Both defeats happened in Asia. The age of revolutions ended in Asia ... where Chinese communism converges with state capitalism, and where revolutionaries of yesteryear, such as Pol Pot, end up literally in the trash can." Godement perceives that the consequences of the Asian crisis should not be underestimated, as it is a region-wide crisis, rather than a series of country-specific crises, which requires a regional solution. "Asian capitalists ... are not necessarily [being] told to adapt *and* perish. They are really being called upon to adapt *and* perish ...". The view from within the boardrooms of major banks and corporates in

Bangkok, Seoul, Jakarta must indeed seem like this. Although, perhaps with one eye on the LTCM debacle, Godement offers a ray of hope: "Unlike God, economics does not punish sinners". Very true.

Although the latter chapters have less appeal, there are a few gems contained within the second part of the book, notably in the chapter on the "Faustian deal" that Godement sees now confronting the leaders of some Asian countries. For those that agree to swallow the bitter pill being proposed by the Bretton Woods brigade: "They will perhaps be hailed by international financial institutions and advocates of neo-liberal policies. An then they will be overthrown in the next elections, by an outburst of social unrest and xenophobia." "On the other hand, no Asian government today can hope to ride out the crisis by ... going it alone ...". The IMF comes in for some flack, allegedly having conducted financial sector firefighting by dousing the flames with gasoline. Looking ahead, Godement sees the fate of Asia resting in the hands of three key countries: Indonesia, China, and Japan. And each is wrestling with very distinct problems. However, this writer would propose that there is a fourth determinant of Asia's immediate future — Wall Street. Any and all attempts to revive Asia could be discounted if the equity price bubble in the United States is pricked. So, to some extent, the fate of the region lies beyond its boundaries.

An important element missing from this depiction of the Asian crisis, and missing from most commentaries on this topic, is an appreciation of the actions and motives of the key participants in the initial currency and financial meltdown with East Asia; the major international banks and foreign portfolio investors. It was within their dealing rooms — played out on the myriad screens of their desks, in which the virtual world of massive financial transactions is daily conducted, where new derivatives are concocted, and where large fortunes made and lost — that the all-important opening salvos of the Asian crisis were unleashed. Although the crisis later mutated, through the disintegrating loan portfolios of commercial banks and the balance sheets of

domestic corporates, into the so-called “real economies” of the region, the unfolding of events cannot be understood without some appreciation of what occurred within the walls of the major (private sector) financial institutions during 1996–97. And perhaps more importantly, no sustained recovery from the Asian crisis can be contemplated without an understanding of how to prompt these same actors within the finance industry to once again “go long” in East Asia, where they had recently “underweighted” to the point of zero exposure. (And in doing so, inadvertently inflicted immense damage to several of the East Asian capital markets.) As the author says, “to the real world investor sitting in Wall Street, Omaha or Frankfurt, the Bangkok, Jakarta and even Kuala Lumpur equity and money markets are just pocket change”. This was true prior to the events of 1997. After 1997, there is only a small handful of Asian markets that major money managers will deem are worth getting out of bed for: Tokyo, Hong Kong, Singapore and Taipei, on volume terms alone.

Quite clearly, “fundamentals” will only be part of the Asian recovery story. Godement states that “the collective psychology and political attitudes of Asian citizens and their leaders are now more important than any economic factor”. That assertion should include the collective psychology of western financial institutions too. It will take time for merchant banks to come to terms with events such as the Peregrine collapse, whereby the bankruptcy of an Indonesian taxi firm brought down the Hong Kong-based investment bank. Although both are legally bust, only the investment bank has ceased business.

One consensus view that appears to be emerging from the analyses of the Asian crisis is that liberalization of the economies (and the financial markets in particular) in East Asia was allowed to take place at a faster velocity than the introduction of regulatory devices necessary to ensure that abuses and distortions did not accumulate to danger levels. If so, this may have some interesting implications for the type of guidance that the various multilateral bodies extend to the transitional countries of Asia, and beyond.

Previously dismissed as foot-dragging, perhaps the appeals by the leaders of transitional countries to adopt a more gradualist approach to economic liberalization will be received with greater patience by those international bodies seeking to assist in the dismantling of former command economies. Although beset with not insubstantial economic problems of their own, the non-convertible currencies of China and Vietnam were not allowed to “tank” in 1997, and thereby prevented what might have been a far more vicious spiral of regional currency devaluations.

Looking ahead, Godement proposes two scenarios. The first, which largely entails a continuation of current policy initiatives, the author envisages will result in a second Asian crisis, this time leading to a global crash. The second scenario proposes a substantial change in policy prescriptions, revolving around a concerted global attempt to tackle the Asian liquidity crunch, a successful bid to end the economic recession in Japan, and the establishment of an International Resolution Trust. Such a scenario would result in a more conducive outcome for the global economy, argues Godement.

Finally, at the risk of appearing pedantic, there are a few errors in the text that suggest the editing of this work might have been slightly hurried, albeit in a worthy bid to get this timely piece onto the bookshelves. The head of the World Bank will be surprised to see his name cited as “Tom Wolfensohn”. Similarly, the Vietnamese film *Cycle* was quite clearly set in free-wheeling Ho Chi Minh City (formerly Saigon), not dour Hanoi. However, such minor oversights are perhaps inevitable when trying to publish a work on such a fast-moving topic, and should not be allowed to detract from what is a valuable and refreshing addition to the growing volume of work on the Asian crisis. As the interval since the flotation of the Thai baht in July 1997 becomes greater, it is not surprising that published works pertaining to the Asian crisis are becoming more considered and fruitful.

NICK J. FREEMAN
Institute of Southeast Asian Studies