Global Economic Effects of the Asian Currency Devaluations. **By Marcus Noland, Li-Gang Liu, Sharman Robinson and Zhi Wang.** Washington, D.C.: Institute for International Economics July 1998. Pp. 104.

This study forms part of an Institute of International Economics trilogy, which addresses the East Asian financial crisis. The three studies consist of Goldstein's *The Asian Financial Crisis: Causes, Cures and Systemic Implications,* Posen's *How Much is Enough for Japan,* and this title which focuses on the likely impact of the significant real exchange rate depreciations on the volume and pattern of international trade.

The book consists of three sections. The first section examines the origins and nature of the crisis as an overview. The authors assert that while both fundamentalist and panic considerations are important in examining the origins of the crisis, they conclude that the evidence lends considerable credence to the fundamentalist view, which in turn suggest that the crisis will have real and persistent effects. The second section analyses the global economic effects of the crisis, while the final section is devoted to examining the impacts of the crisis on the United States.

This study quantifies the impact of currency changes on seventeen regions, on a sector by sector basis. It concludes that all the economies most affected by the crisis, (the ASEAN-4 and Korea) are likely to experience a large fall in domestic absorption, increase net exports primarily through a compression of imports, and experience a positive increase in their bilateral trade balances with the United States. The authors argue that the negative impact of the crisis on bilateral trade balances is likely to increase trade tensions and formal trade actions. However, this could be mitigated by two considerations: (1) the fact that the trade disputes arise in a context of financial crisis may temper U.S. trade pressures, and (2) the WTO and its dispute settlement mechanism may constrain U.S. unilateralism. The virulence of the possible trade backlash will most likely be influenced by the macroeconomic environment prevailing in the United States when this adjustment occurs. The likely impact of a Chinese devaluation is also discussed at length. The authors conclude that, while the direct impact of a Chinese devaluation on the United States would not be particularly large and will in part simply reallocate the U.S. trade deficit across partners, the main concern lies in the likelihood that a Chinese devaluation could spark rounds of further competitive devaluations.

The global impacts of the crisis are quantified with the use of a multisectoral, multicountry, computable general equilibrium model. The model includes seventeen regions, fourteen sectors and five factors of production, and employs over 17,000 equations and variables. The model is also neoclassical in spirit, assumes constant returns to scale and does not consider financial markets, interest rates or inflation. The conclusions reached with the aid of the model appear plausible enough but these same conclusions could have been easily reached without the aid of the model. Several observers for example, have predicted that the United States as the world's "consumer of the last resort" would be expected to experience a major deterioration in its trade balance with the crisis-affected countries as the latter try to export their way out of the crisis.

It seems reasonable to wonder if an equilibrium model is up to the task of examining the adjustment of the crisis at hand. Quantitative models by their nature are unable to take account of the likely adjustment trajectories of individual economies that are bound to be influenced by different economic structures, policy responses, institutional environments, political economy considerations and the world trade environment. The exclusion of these considerations is a serious limitation of studies which use CGE models in examining the Asian crisis generally, and this study is no exception.

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