SOUTHEAST ASIAN STUDIES

http://englishkyoto-seas.org/

<Book Review>

Walden Flores Bello

T. J. Pempel and Keiichi Tsunekawa, eds. *Two Crises, Different Outcomes: East Asia and Global Finance*. Ithaca: Cornell University Press, 2015, viii+267pp.

Southeast Asian Studies, Vol. 6, No. 1, April 2017, pp. 178-183.

How to Cite: Bello, Walden Flores. Review of *Two Crises, Different Outcomes: East Asia and Global Finance* by T. J. Pempel and Keiichi Tsunekawa. *Southeast Asian Studies*, Vol. 6, No. 1, April 2017, pp. 178-183.

Link to this book review:
https://englishkyoto-seas.org/2017/04/vol-6-no-1-book-reviews-walden-flores-bello/

View the table of contents for this issue:
https://englishkyoto-seas.org/2017/04/vol-6-no-1-of-southeast-asian-studies/

Subscriptions: http://englishkyoto-seas.org/mailing-list/

For permissions, please send an e-mail to:
english-editorial@cseas.kyoto-u.ac.jp

Center for Southeast Asian Studies, Kyoto University

appears highly unlikely that resettlement can resolve the displaced person situation in the border shelters as a lone durable solution" (Harkins and Supang, p. 95).

So far, the most significant constraint is that the resettlement program is significantly underfunded. For instance, the stakeholders have insufficient funding to reinvigorate the screening mechanism that determines displaced persons' status, in order to provide new asylum seekers with basic services.

Unfortunately, stakeholders are often requested to provide funding for the needs of resettled families, such as "adjusted immigration status, stable housing, engagement with community services and independent functioning" (Harkins and Supang, p. 82).

In the opinions of the editors and contributors, there is no truly feasible solution for resettled families from the Thai-Myanmar border shelters. Without sufficient funding, it is impossible to implement any measures for self-reliance, which is "a necessary part of any truly sustainable longterm strategy for resolving the displacement situation" (Harkins and Supang, p. 97).

Kai Chen 陈锴
School of International Relations, Xiamen University

Two Crises, Different Outcomes: East Asia and Global Finance
T. J. Pempel and Keiichi Tsunekawa, eds.
Ithaca: Cornell University Press, 2015, viii+267pp.

More Financial Crises Ahead?

Two Crises, Different Outcomes: East Asia and Global Finance makes three key assertions: first, contrary to the school attributing the Asian financial crisis to "crony capitalism," the debacle of 1997–98 was due largely to unregulated capital flows that flooded the region then quickly fled at the onset of the macroeconomic distortions they had brought about.

Second, the United States and Europe could have avoided the financial collapse of 2008–09 had they learned the right lessons from the Asian financial crisis and strengthened instead of dismantling or weakening their systems of financial regulation.

Third, learning from the Asian financial crisis, the East Asian economies took steps to prevent a rerun of that crisis, including making currency swap arrangements, limiting their exposure to new financial products like credit default swaps, and, above all, building up massive financial reserves derived from intensified export-intensive trade strategies. These measures insulated them from the 2008–09 global financial crisis.

To be sure, these three arguments have been made by others in the academic and political debates that followed both crises. But it is worth restating them cogently and with strong empirical backing, as the book does. Moreover, the essays on the region's different economies provide important nuances to the book's central arguments. For instance, Yasunobu Okabe's paper on Korea and Thailand claims that in contrast to Thailand, Korea's post-Asian financial crisis regulation of capital flows to foreign bank branches was quite lenient, and this nearly brought Korea to its knees again in 2008; the country was saved from "a second financial crisis through a $30 billion currency swap approved by the US Federal Reserve Board in October 2008" (p. 105). Had Korea had a second financial collapse, who knows what the knock-on effects on the region might have been? We might now be writing on how the East Asian region was drawn into the maelstrom of the global financial crisis.

Some of the essays provide us with interesting insights into the institutional contexts of the different countries' responses to the two crises. Barry Naughton, in his essay on China, says that while the response of the Chinese government—the rolling out of a stimulus program—was superficially similar in both the Asian financial crisis and the global financial crisis—the institutional contexts were different. During the Asian financial crisis, the stimulus was intended by reform-oriented Prime Minister Zhu Ronji to be an emergency measure within a liberalizing trend, while during the global financial crisis it was part of a return to greater state intervention under the Hu Jintao-Wen Jiabao leadership.

In varying degrees the different authors make the point that while East Asia may have dodged the bullet during the global financial crisis, it is not out of the woods. In fact, not only is the era of high growth over, but structural crises are catching up with the different economies of the region. Building up financial reserves via vigorous export drives and largely staying away from Wall Street's dangerous financial innovations like securitized mortgages and "credit default swaps" may have saved the Asian economies from the worst effects of the global financial crisis, but their deeper problems remain unresolved—problems stemming largely from the region's integration into the global economy.

What are these problems? As the essays make clear, though the Asian economies have structural similarities, each of them has its unique configuration of challenges. Japan, Tsunekawa points out, cannot seem to shake off its quarter of a century of stagnation owing to pendulum swings between neoliberal reform advocated by reform technocrats and increased public spending in response to electoral pressures. One path cannot be pursued long enough for it to produce decisive results. However, this oscillation seems to be a symptom of something deeper, more structural in character, something that Tsunekawa mentions but apparently does not attach much significance to as a cause of Japan's stagnation. Japan's economic system has been described as "communitarian capitalism," one whose underlying logic is community solidarity. Created during Japan's drive to catch up with the West, the system sought to contain social conflict while at the same time promoting rapid development and national autonomy. Resting on social compromises such as lifetime employment for the core workforce, worker-management cooperation in the production process, and strict observance of seniority, the system is threatened with unraveling when subjected to reforms liberating market forces. While the system worked well during the country's dynamic postwar development as a global exporting power, many analysts feel it has become dysfunctional under the current conditions of global capitalism. Yet inertia dominates because, as political economist Marie Anchordoguy claims, Japanese society would rather live with dysfunctionality than risk fundamental change, with its unpredictable consequences (Anchordoguy 2005).

For Korea, it seems the opposite is the case. While Japan was too big to be successfully brought to heel by external forces promoting liberalization, such as Washington and the International Monetary Fund, Korea was laid low by the same actors, which used the Asian financial crisis to substantially weaken the formidable alliance between the state and the conglomerates that had been the engine of Korea's sizzling growth from the 1960s to the 1990s. Liberalization has advanced in key sectors of the economy, being especially swift in the financial sector. By 2004, foreigners owned 45 percent of corporate stocks. Capital market deregulation triggered a credit card lending bust in 2003, a real estate bust in 2003–04, a liquidity crisis in 2008, and bankruptcies of savings banks in 2011 (Park 2013, 225). As noted above, only a $30 billion swap provided by the US Federal Reserve seemed to have saved Korea from a second financial collapse in 2008. Ironically, the financial sector has become the most vulnerable point of an economy that probably had the most repressed financial sector in non-Communist Asia during the "miracle years."

In the case of China, the challenge is not so much a choice between liberalization and a drift back to state intervention highlighted by Naughton, but between sticking to a high-growth export-oriented political economy that represses domestic demand and one more geared to expanding it. The downspin of demand in China's most important markets following the onset of the global financial crisis and the blame game that targeted its massive trade surplus with the center economies as one of the key reasons for the crash convinced the Chinese leadership that a new economic strategy was badly needed.

When in 2009 then President Hu Jintao and Prime Minister Wen Jiabao launched China's massive stimulus program—at US$585 billion, the biggest in the world in relation to the size of the economy—their aim went beyond providing temporary relief while awaiting the recovery of the country's main export markets in the United States and Europe. The stimulus was intended to be the cutting edge of an ambitious effort to make domestic demand the driver of economic growth via redistributive and related measures (see Bello 2015).

This shift to stimulating domestic consumption made economic sense, not only because export markets were volatile but also because owing to overinvestment there was much unused capacity in the economy. Also, the stimulus was attractive from an equity point of view since it would place more purchasing power in the hands of the vast majority of peasants and workers, who had been disadvantaged by the priority given to export-oriented industry and profits. This internal rebalancing between classes would parallel the international rebalancing between Beijing and its main trading partners.

The problem was that the shift was not just a case of changing macroeconomic priorities; it would also entail transforming the composition of winners and losers. This meant taking on the set of political and economic interests that were the prime beneficiaries of the political economy of export-oriented rapid growth the previous quarter of a century.

The Hu-Wen push did not get very far. Not only did the export-led rapid growth lobby manage to neutralize the plan to make domestic consumption the cutting edge of the economy, but it was also able to hijack the massive stimulus program that had been intended to place money and resources in the hands of consumers (Wang 2014, 118–119).

It remains to be seen how the current leadership of Xi Jinping will manage citizens' expectations in a period of much slower growth, increasing joblessness, greater inequality, and much greater discontent. Will it continue to tread softly around the powerful set of interests that has dominated society for over two decades or will it muster the courage to break with the political economy of export-oriented rapid growth and lead the way to a new development paradigm based on domestic consumption underpinned by greater equity? Naughton is correct that the current leadership has still to definitively settle on a macroeconomic course, but his judgment that maintenance of "the full panoply of social insurance and industrial policies that were ramped up during the crisis . . . no longer seems natural, inevitable, and right" (p. 133) underestimates the magnitude of the challenge facing the new leadership, though he is not unsympathetic to the need for addressing the dislocations triggered by the liberalization program.

The Southeast Asian economies, for their part, are facing the challenge of moving from labor-intensive, low-value-added production to technology-intensive, high-value-added production. Indeed, Richard Doner says that the very success of the Southeast Asian economies in protecting themselves from a rerun of the Asian financial crisis has contributed to their current dilemma:

> [Their] responses, which relied largely on macroeconomic measures and financial sector reforms, as well as a proliferation of free trade agreements and participation in global production networks, alleviated pressures for systematic improvements in technology-related capacities such as research and development training. They perpetrated a broader strategy that, while resulting in impressive GDP growth rates and diversification, has encouraged capital-intensive, foreign-dominated manufacturing and weak intra- and intersectoral linkages. (p. 164)

The result has been to expose these economies to what Doner calls the "middle income trap" or what Stephanie Rosenfeld and I earlier termed the "structural squeeze," that is, being caught between "low-wage/low-skill and higher-wage/higher-productivity rivals" in a competitive global economy sliding into stagnation (p. 164; Bello and Rosenfeld 1992, 251–277).

While having their own specific configurations of crisis, the East Asian economies face the common threat of increasing obsolescence of their mode of integration into a global economy that is increasingly driven by the gyrations of finance capital.

During the late 1990s, speculative capital's push to have a piece of the Asian economic miracle and the Asian economies' need for capital to fuel their export machines combined to create the Asian financial crisis. The effort of the Asian economies to fortify themselves against new attacks on their currencies led them to build up their financial reserves through aggressive export drives. A great portion of these reserves was then recycled as loans to the US Treasury and US banks, and through the wonders of financial engineering, they helped finance the housing and other bubbles that brought on the global financial crisis. It remains to be seen what the next stage is in this increasingly toxic relationship between Asia's export-driven growth and global speculative capital. As stagnation spreads in the region's productive sectors, will its economic and political elites be tempted once more to resort to speculative finance to shore up profits?

Seen in a dynamic global context, the two financial crises explored in this volume emerge as explosions—or implosions—waiting to happen in a global capitalist system driven by instability and tending toward disequilibrium. In their conclusion, the editors lay out three possible scenarios for the coming period: a "best case scenario," "collapse around the corner," and "a lost decade ahead." They seem to regard the third option as the least unlikely. East Asian societies face a range of critical problems in the next decade, including a rise in inequality, graying populations, climate change, and security crises. But one of the most serious challenges is the failure to make a transition to a post-export-led growth model even as global finance capital remains largely unbridled. This volatile conjunction, warn the editors, "could lead to the recurrence of devastating financial crises and the precarious response based on their own debt accumulation in the East Asian countries" (p. 232).

This scenario may well transpire, but it may be inflected greatly by a development that, surprisingly, the volume largely ignores: greater geo-economic competition between China and the United States. This competition accelerated greatly under the Obama administration, with its Trans-Pacific Partnership initiative, which seeks to integrate countries in the Pacific Rim—notably, Japan, Vietnam, Malaysia, and Singapore—into a US-dominated free trade area designed to counter China's economic hegemony. Fought over by two economic giants, one pushing the Trans-Pacific Partnership and the other its Regional Comprehensive Economic Partnership designed to keep the United States at bay, the smaller and weaker economies are likely to be subjected to severe pressure for preferential trade, investment, and financial liberalization from both sides. With geo-economic—and geopolitical—competition added to volatile capital flows and continued addiction to export-led growth, the East Asian region is entering uncharted, troubled waters.

Walden Flores Bello
Focus on the Global South

References

Anchordoguy, Marie. 2005. *Reprogramming Japan: The High Tech Crisis under Communitarian Capitalism*. Ithaca: Cornell University Press.

Bello, Walden. 2015. China's Stock Market Crash Is the Latest Crisis of Global Capitalism. Foreign Policy in Focus. October 2. http://fpif.org/chinas-stock-market-crash-is-the-latest-crisis-of-global-capitalism, accessed on January 5, 2016.

Bello, Walden; and Rosenfeld, Stephanie. 1992. *Dragons in Distress: Asia's Miracle Economies in Crisis*. London: Penguin.

Park, Yung Chul. 2013. Financial Development and Liberalization in Korea: 1980–2011. In *How Finance Is Shaping the Economies of China, Japan, and Korea*, edited by Yung Chul Park and Hugh T. Patrick, pp. 225–301. New York: Columbia University Press.

Wang, Hongying. 2014. Global Imbalances and the Limits of the Exchange Rate Weapon. In *The Great Wall of Money: Power and Politics in China's International Monetary Relations*, edited by Eric Helleiner and Jonathan Kirshner, pp. 99–126. Ithaca: Cornell University Press.

Catastrophe and Regeneration in Indonesia's Peatlands: Ecology, Economy and Society

Kosuke Mizuno, Motoko S. Fujita, and Shuichi Kawai, eds.
Singapore: NUS Press in association with Kyoto University Press, 2016, xxvii + 466pp.

Fires and haze have become regular events during the dry season in tropical areas in Southeast Asia, especially Indonesia. This is due mainly to government institutional failure in managing resource appropriation. Hence, existing solutions of command and control to mitigate the risk have not resulted in satisfactory results in analyzing the source and impacts (Glover and Jessup 1999; Varkkey 2016).

Catastrophe and Regeneration in Indonesia's Peatlands: Ecology, Economy and Society reminds readers of the importance of the relationship between societies, institutions, and the environment in tropical settings before offering a recommendation. It shows that this relationship has been influenced by living strategies that formed through long periods of ethnic interaction, colonization, and independent state governance. The authors offer the concept known as the "Sustainable Humanosphere" to interpret this relationship and use grounded research to avoid study bias. The book then introduces the idea of developing "people forestry" in order to preserve peatlands while satisfying the economic needs of societies. These are the strong points of the book.

The book was written by 14 researchers who were in close contact with tropical societies in Indonesia. It is structured in three parts, with a total of 14 chapters excluding the introduction and epilogue. The first part attempts to explain biomass production in Southeast Asia. It gives an informative description of the tropical rainforest as intersectional beneficiary resource stock for