

The Downsizing of Asia. Francois Godement. London: Routledge, 1999. pp. 245 \$21.99. ISBN: 0-415-19834-9.

The world may never fully know how close the international financial system came to a total meltdown in late 1997. The "miracle" economies of East Asia virtually overnight came to a halt, nearly dragging the rest of the world into a global depression. Hastily arranged International Monetary Fund (IMF) bailout packages, quick thinking by U.S. monetary officials, and flexibility on the part of Asian leaders may have created a workable – albeit shaky – injection against spread of the disease to Latin America and beyond. Luckily for a world holding its breath, and despite all the talk about inter-locked financial markets, simultaneous crises in East Asia, Russia, and Brazil and Argentina remained localized and unrelated events: East Asia's centered on a fairly simple liquidity shortfall, Russia's revealed a failure of governance on a grand scale, and Latin America's was a habitual episode of poor fiscal and macro-economic management.

As simple as it may have been on the surface, the Asian financial crisis was nonetheless a multi-dimensional phenomenon that refuses to come into focus. Godement has made a commendable effort to bring some clarity to the financial mess, and both Asian and Western reactions to it. The first chapter is a masterpiece of distillation, cleanly cutting through the posturing and cant from various positions. Godement sees the crisis as a learning experience that has taught the world the need to be forward looking, since no one accurately predicted the sudden collapse of the "Asian miracle." It also showed the international community that economics (centered on investment, capital movements and economic growth) cannot be cleanly separated from politics (with its imperatives of regulation, oversight, and transparency of transactions). "Fundamentals count for nothing if the right politics are not in place," he reminds us (p. 18).

Godement takes a sensible middle position between mostly Asians who blame their region's crisis on global finance and many Westerners who see it plainly rooted in the cozy political economic nexus (a key feature of the "Asian model" of development) and wrong-headed financial policies of each country. Rather than searching for scapegoats, Godement insists that the international financial community should be looking for fixes to dysfunctional tendencies on both sides. Most of the damage to Asian economies was caused not by cronyism and corruption but by the very liberalization and openness that were pushed on Asian countries by the West from the mid-1980s. More open financial markets allowed governments to turn on the money spigot, and massive short-term international borrowing, coupled with long-term domestic lending, created a yawning liquidity gap; in retrospect, it is baffling that more observers did not see a major train wreck coming. The IMF responded piecemeal, treating each national crisis as if completely separate, while the underlying reality of deepening regional interaction was ignored. Countries accepting stringent IMF austerity programs actually suffered a deeper collapse than those (such as Malaysia, under the flamboyantly defiant Mahathir) that stubbornly refused foreign assistance.

Unfortunately, Godement does not follow his excellent opening and provide the kind of thorough treatment the reader might expect, but quickly veers off into a philosophical digression in the quicksand of "Asian values." Many a promising book on the Asian political economy has sunk into this slough of vagueness and

ideological posturing. To be sure, Godement presents an interesting discussion on the juxtaposition of supposed holistic Western and eclectic Asian viewpoints on economics. However, his treatment of the subject is no better than numerous others, and distracts from the rigorousness of his enquiry. Godement believes that because politics and economics are the primary arenas in which the crisis played itself out, it is not necessary to devote much ink to a dubious consideration of Asia's supposed values; yet he does not go much beyond this assertion. Had he provided a more fulsome economic and political analysis, he could have produced the standard text on economic crises.

The book's concluding chapters usefully discuss the political challenges facing East Asian countries, though the book went to print before the downfall of Suharto in Indonesia. Godement suggests that the future political stability in East Asia hinges on three countries: Indonesia, China and Japan. For each, the challenges are among the most difficult of the postwar era. Japan, for instance, has to restore trust in both its institutions and leadership, while managing a growing mountain of debt. Meanwhile, regional cooperation has been shredded by the crisis, and it will be difficult to rebuild. There are small promising signs of collaboration, but they remain embryonic. Godement ends with two scenarios: the first is another crash caused by deepening problems in both China and Japan, and the second is the creation of an international Resolution Trust fund, accompanied by the easing of Western money supply, that will help the region ride through any future crises.

Despite Godement's relatively strong finish, the reader is left curiously thirsty. The book never reaches general theoretical conclusions in any systematic way, and so the Asian crisis remains as a unique specter that has haunted the international financial landscape, and moved on. In fact, from the fall of Renaissance banks to the collapse of the Thai baht, financial crises share common elements: over-borrowing, over-ambitious lending, and the lack of financial regulation on either end, accompanied by an all-too-human hubris. When the explosion happens, international investors (and speculators) operating by herd instincts quickly run away from danger—and sometimes off a cliff. Why could an author not pull these elements together in one volume, using the Asian crisis as a starting point? Well, actually, Kindleberger and Chancellor come close, though neither has much to say directly about Asia's disaster.¹

Since there is as yet no standard work on the Asian crisis, one is forced to pick and choose from a smorgasbord of recent analytical and descriptive works. Jackson's edited volume,² *The Downsizing of Asia*, begins with a pithy summation of the crisis and its causes. Jackson sees the crisis as primarily homemade, and, that being so, his contributors thoroughly examine the crisis country-by-country. Those looking for a compendium of data and information on the crisis should turn to Delhaise.³ Henderson presents a fast-paced, journalistic overview of the problem as it developed regionally, as well as a well-written chronology of the major events of 1997 and early 1998.⁴ Finally, Lingle's liberal polemic more completely dismantles the Asian "miracle" and Asian values theme than does Godement's tepid effort.⁵

The world escaped Armageddon this time, but Godement's work shows that we cannot risk being complacent about the emerging financial structure of the twenty-first century. Poor governance and bad decisions by both public and private sectors can happen again—and in any country. And the cascade effect of wrong-headed developmental and monetary policies, unheeded warnings of disaster, and

weak international responses to calamity can threaten any developing country. Japan's sluggish performance in the 1990s, along with China's long-term struggle to overcome the backwash of its disjointed reform program, shows that big economies are also not immune from the disease. The effects of financial contagion are often worst on average people in countries affected, as suggested by the book's cover, showing a laid off Korean *sarariman* with several days of stubble sorrowfully bearing a sign proclaiming, "YM Fired" (IMF in red letters). In the difficult years ahead, policymakers should keep that image foremost in their minds as they plan for the next financial crisis.

Notes

- ¹ Charles P. Kindleberger, *Manias, Panics and Crashes: A History of Financial Crises* (New York: John Wiley and Sons, 1996); and Edward Chancellor, *Devil Take the Hindmost: A History of Financial Speculation* (New York: Farrar, Straus & Giroux, 1999).
- ² Karl D. Jackson, *Asian Contagion: The Causes and Consequences of a Financial Crisis* (Boulder, CO.: Westview Press, 1999).
- ³ Philippe F. Delhaise, *Asia in Crisis: The Implosion of the Banking and Financial Systems* (New York: John Wiley and Sons, 1998).
- ⁴ Callum Henderson, *Asia Falling: Making sense of the Asian crisis and its aftermath* (New York: McGraw-Hill, 1998).
- ⁵ Christopher Lingle, *The Rise and Decline of the Asian Century: False Starts on the Path to the Global Millennium* (Hong Kong: Asian 2000 Limited, 1998).

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