Yung Chul Park and Hugh Patrick (eds): *How Finance is Shaping the Economies of China, Japan, and Korea*, Columbia University Press, New York, 2013.

The stories of Japan, China and Korea are typically understood as ones of successful catching-up in the development economics literature. However, the relationship between financial development and growth is relatively understudied. In ‘How finance is shaping the economies of China, Japan and Korea’ edited by Prof. Yung Chul Park, Hugh Patrick and Larry Miessner, the role of financial aperture in East Asia is explored from the perspective of economic efficiency and macroeconomic stability. Though it is acknowledged that the three cases are different in many ways, the contributors attempt to draw comparisons between them in order to evaluate the success of financial reforms in the three countries and their resilience in the face of financial crises. Hugh Patrick sets the stage for the general argument in the introductory chapter. He focuses on three general lessons that can be extracted from the experiences in Japan, China and Korea: 1) financial liberalization improves capital allocation efficiency but by itself does not translate into development, 2) there is a case to be made for financial repression in early stages of development and 3) effective regulatory frameworks are paramount.

In Chapter Two, Yiping Huang, Xun Wang, Bijun Wang, and Nian Lin identify the progress and challenges of financial reform in China, which has been characterized by high levels of robustness and strong macroeconomic performance despite lingering financial repression. The authors present an overview of the financial reforms made thus far and the ones that still remain in the context of the theoretical and empirical literature on the relationship between finance and growth. The strategy pursued by the Chinese government is asymmetric liberalization: floors and ceilings on deposit/loan interest rates and direct contact between regulators and CEOs regarding the total amount of loans issued. This is characterized as relatively positive strategy as it has insulated the economy from external shocks, though at the cost of generating structural imbalances.

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Experiences in other East Asian countries during the Global Financial Crisis (henceforth GFC) have shown that volatility in portfolio investment flows can be an important source of financial instability. The authors suggest that a way to avoid this is to increase quotas under the already existing qualified investor programs to get the best of both worlds. In conclusion, though financial repression may have aided China's growth during the first decades after liberalization, forestalling further liberalization of the financial system has become an obstacle to growth and other policies.

Unlike China and Korea, Japan had a liberalized financial sector by the 1990s. In Chapter Three, Edward J. Lincoln examines the process of financial deregulation, structural change and performance between 1990 and 2010. Like China, Japan suffers from a problem of financial resource misallocation, the difference being that in the former this is attributable to government intervention whereas in the latter the culprit is argued to be the lack of market pressure for corporate efficiency.

After the deregulation wave of the early 1980s, Japanese firms scrambled for access to international capital markets and low-cost funding. However, they did so with little expertise in risk-management techniques and regulatory frameworks, factors which precipitated the subsequent collapse in the 1990s. Though Tokyo is by all accounts a global financial hub, it has failed to live up to the expectations generated by the size of its economy and financial institutions. Liberalization and deregulation have helped integrate Japan into global capital markets; however, a) language barriers, b) high costs of relocation of human resources, c) risk aversion and d) corporate management culture have ensured that it is no closer to achieving the status of London or New York than it was 20 years ago. Lincoln concludes that Japanese banks should increase their investments abroad and rethink their risk assessment strategies to become critical and impartial lenders as opposed to relying on networks; which results in chronic domestic overinvestment and competitive disadvantages in relation to European and American competitors.

In mild contrast to the previous cases, Korea has been successful in building a market oriented financial system after the 1997 Asian financial crisis. Chapter four presents the reader with an overview of the financial reforms in Korea. Prof. Chul notes that, though both the 2008 and 1997 crises can be traced back to financial liberalization, this does not automatically negate its benefits but rather sheds light on the need for a gradual and rationalized opening of the capital account in order to minimize adverse consequences. Prior to 1997 there was no clear direction for financial reform, after the crisis and the intervention of the International Monetary Fund; Korea has set on a path of deregulation and convergence with the Anglo-Saxon model. However, in 2008 the over-accumulation of short-term foreign liabilities left the economy susceptible to a reversal of capital flows.

The liberalization of the Korean financial system has had mixed effects on society. The process is categorized as a double-edge sword: a) on the one hand it can provide medium and small businesses access to capital in formal markets (protecting them from the usurious rates characteristic of the informal market); b) on the other hand, measuring by Gini coefficient, Korea has become more unequal after the 1997 liberalization wave (from 0.28 in 1997 to 0.31 in 2011). The lesson drawn by Prof. Chul is that there are limits to which small emerging countries can open up their capital accounts without strict implementation of institutional safeguards to prevent the accumulation of systemic risk.

Finally, in chapter five Young-Hwa and Hyun Song Shin analyze the role of financial intermediaries as amplifying forces for financial booms and busts. Their assessment is in line with most of the literature on financial crises as it highlights the risk of maturity mismatches and the limitations of micro-prudential regulation. (Hanson, Kashyap, & Stein, 2011) The detailing of the new macro-prudential regulatory frameworks that are being developed in the region is one of the volume's greatest strong points.

All in all, the book is an excellent introductory piece to current state and historical development of financial institutions in Japan, Korea and China and their impact on their respective economies. The case studies are interesting and the general narrative presupposes little technical expertise on behalf of the reader – which does not translate into a less compelling argument. Nevertheless, the volume could benefit from placing financial reform in all three cases in the context of deregulation at a global scale. Likewise there is little mention of the efforts of the Chinese government to make the Renminbi as a global reserve currency (Subramanian, 2011), as well as the mirage of complementary initiatives to increase the role of China in the global financial system. Reference to this debate could greatly enrich further editions of the volume by placing the largest financial systems of East Asia in global context. These are, however, minor comments on an otherwise excellent volume.

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