

# Preface

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This book is for anyone who is interested in the economic conditions and policy response of four major East Asian economies in the wake of the 2008 global economic crisis. It is a compilation of ten academic theses written by a distinguished group of Asian social scientists from the region's top national universities, state research institutes, regional economic institutions and think tanks.

Largely a scholarly work of normative analysis, this synthesis study summarizes the economic impacts of the crisis on individual countries and their policy responses over the past years, with particular emphasis on carefully scrutinizing the immediate and remote causes of the crisis. It not only offers assessments of the impacts and identifies measures that can be undertaken in specific countries to stabilize the situation, but also looks at the crisis from three important disciplines of economics: a healthy fiscal system, international trade and the energy market. It offers reasons for the strategic programs needed for recovery and for promoting sustained economic growth. Although none of the authors provides a complete answer to all the problems, all the authors provide useful information and new ideas to fashion a workable program.

It will be apparent that we have addressed a wide range of economic issues in this volume. Yet, the ten theses are grouped into three parts based on common themes they share with one another. Each part offers treatment of a distinct area of study of economics, appropriately positioned in the context of economic crisis. Chapters 1 to 3, constituting the first part of the volume, examine various aspects of financial systems, since this economic crisis began with a financial crisis. In Chapter 1, orienting us with a detailed account of how the crisis first originated and then affected Taiwan, Hu offers a close examination of the recent US financial regulatory reforms in the aftermath of the crisis and presents us with a succinct evaluation of both the US and the Taiwanese banking systems. In Chapter 2, drawing lessons from the experiences of the pound sterling in the 1920s after World War I and the circumstances surrounding the British abandonment of the gold standard in 1931, Wang offers us her study of the possible demise of the dollar standard system after the recent crisis and the rise of the Chinese yuan as the world's primary reserve asset. Shen and Lin then present us in Chapter 3 with an analytic framework,

based on multiple case studies, that suggests that the underperformance of government-owned banks commonly observed in developing countries during economic crises may be contingent on bad mergers with troubled private banks.

Chapters 4 to 8 are concerned with the impacts, consequences and policy responses of the crisis in several economies, particularly those in East Asia such as Taiwan, Korea, Japan and China. The focus of Part II is to present the reader with key findings on how the economic crisis affected trade, investment and growth in the four economies and the implications for crisis policymaking and management in East Asia. In Chapter 4, Liu gives an empirical account of the linkage between economic crisis and export performance, providing evidence that exports both in Asian and in advanced economies experienced an excessive fall and overshoot their long-run equilibrium values during the 2008 and 2001 recessions. She makes some important preliminary clarifications concerning the occurrence of the so-called 'export overshoot' phenomenon and in this context examines factors and conditions that render Taiwanese exports susceptible to crisis. In Chapter 5, Wang and Lin identify Taiwan's most pressing development challenges in the further instability threatened by the recent crisis. They provide details of the nation's action plans for tackling these challenges, whose success is anchored heavily on the signing of the ECFA with China and the development of the six 'flagship' strategic industries in creating new drivers of growth. In Chapter 6, Chung presents a succinct account of how the Korean economy suffers from 'super capitalism' and an internal imbalance of investment and savings similar to the one seen in the US, and how the country is being held hostage by the complications of the deregulation policies applied in opening its burgeoning financial sector. In Chapter 7, Kawai and Takagi offer an empirical examination of the structural changes in trade and industrial structure that have taken place during Japan's lost decade, and how, based on their estimation, those changes have made the Japanese economy less resilient to adverse external shocks. In Chapter 8, Yu discusses China's overcapacity problem resulting from its investment-driven and export-led growth and the implications for Chinese output of the fall in global demand. He offers reasons why China could use a sizable economic stimulus package to boost its internal demand as the country has faced a sudden collapse in global demand and has found itself in the 'dollar trap'.

Finally, Chapters 9 and 10 make up the last part of the book and analyze the crisis from two broader perspectives, that is, fiscal discipline and energy crisis. In Chapter 9, Ho, Hsu and Mao develop a dynamic general equilibrium model under uncertainty that captures the debt-smoothing mechanism of the economy. They give a robust theoretical

exercise on formulating exit strategy for different fiscally disciplined regimes, as they warn governments not to spend their way out of recession by piling up debts with expansionary fiscal policies. In Chapter 10, Shaw and Chen show that the energy crisis was one of the causes of the economic meltdown that predated the bursting of the financial bubble, by describing the interplays between the energy and economic crises. They call it the dual crisis of energy and economy, and offer solutions to the challenge of finding a balance between the rising demand for fossil fuel energy and economic growth in the face of climate change; they show that the role of government may have upset the delicate balance of achieving sustainable development.

At the core of our endeavor, albeit one with many limitations, to compile a book about policy responses to the economic crisis is our firm belief that we can contribute in some way to a good contextual understanding of the individual economies from the region as the world slowly emerges from the Great Recession of 2008. For policymakers prioritizing resources to address the impact of the crisis, we believe that the key findings and policy recommendations of the study will serve as a useful source of information and ideas. For economists keen on keeping abreast of important economic issues of these East Asian economies immediately following the crisis, this book will give a good overview.