This volume connects the evolving modern financial systems of China, Japan, and Korea to the development and growth of their economies through the first decade of the twenty-first century. It also identifies the commonalities among all three systems while accounting for their social, political, and institutional differences.

Economies engaged in rapid catch-up growth processes and share similar economic structures. Yet while domestic forces have driven each country's financial trajectory, international short-term financial flows have presented opportunities and challenges for them all. The nature and role of the financial system in generating real economic growth, though nuanced and complex, is integral to these countries' modern development. This study captures a fascinating spectrum of experiences with powerful takeaways.

Yung Chul Park is distinguished professor in the Division of International Studies at Korea University. He previously served as the chief economic adviser to the president of Korea (1987–1990), as president of the Korea Development Institute (1986–1987), and as president of the Korea Institute of Finance (1992–1998).

Hugh Patrick is director of the Center on Japanese Economy and Business at Columbia Business School, codirector of Columbia University's APEC Study Center, and its Robert D. Calhoun Professor of International Business Emeritus.

“Integrating research on all three target countries, this volume provides a clear explication of the way financial markets impact the real sector and are shaped by political policies. The book is written clearly enough to be easily understood by a wide range of academic readers, whether undergraduates or graduate students engaged in research, and will also be a valuable reference for experts in the field.”

—Satyananda J. Gabri, Mount Holyoke College

ISBN: 978-0-231-16526-6

Columbia Business School
Publishing
AN IMPRINT OF COLUMBIA UNIVERSITY PRESS

Edited by Yung Chul Park and Hugh Patrick

"In juxtaposing the financial systems of China, Japan, and Korea over the past two decades, this book provides some striking contrasts in their evolution and responses to the Asian financial crisis of 1997–98 and the U.S.-induced crisis of 2007–9. It raises important issues about countries’ interaction with a global financial system largely beyond their control.”

—BARRY ROSWORTH, BROOKINGS INSTITUTION

“Finance and its regulation are controversial, and nowhere are they more controversial than in Asia. But no one can claim more experience and knowledge of the controversy than Yung Chul Park and Hugh Patrick. This volume will be of special interest to China, Japan, and Korea specialists, and general readers alike.”

—BARRY EICHENGREEN, UNIVERSITY OF CALIFORNIA, BERKELEY

“In juxtaposing the financial systems of China, Japan, and Korea over the past two decades, this book provides some striking contrasts in their evolution and responses to the Asian financial crisis of 1997–98 and the U.S.-induced crisis of 2007–9. It raises important issues about countries’ interaction with a global financial system largely beyond their control.”

—BARRY ROSWORTH, BROOKINGS INSTITUTION

“Integrating research on all three target countries, this volume provides a clear explication of the way financial markets impact the real sector and are shaped by political policies. The book is written clearly enough to be easily understood by a wide range of academic readers, whether undergraduates or graduate students engaged in research, and will also be a valuable reference for experts in the field.”

—SATYANANDA J. GABRIEL, MOUNT HOLYME COLLEGE

In juxtaposing the financial systems of China, Japan, and Korea over the past two decades, this book provides some striking contrasts in their evolution and responses to the Asian financial crisis of 1997–98 and the U.S.-induced crisis of 2007–9. It raises important issues about countries’ interaction with a global financial system largely beyond their control.”

—BARRY ROSWORTH, BROOKINGS INSTITUTION

“Integrating research on all three target countries, this volume provides a clear explication of the way financial markets impact the real sector and are shaped by political policies. The book is written clearly enough to be easily understood by a wide range of academic readers, whether undergraduates or graduate students engaged in research, and will also be a valuable reference for experts in the field.”

—SATYANANDA J. GABRIEL, MOUNT HOLYME COLLEGE
How Finance Is Shaping the Economies of China, Japan, and Korea
HOW FINANCE IS SHAPING THE ECONOMIES OF CHINA, JAPAN, AND KOREA

EDITED BY YUNG CHUL PARK AND HUGH PATRICK WITH LARRY MEISSNER
Contents

Preface
vii
Acknowledgments
xi

CHAPTER ONE
An Introductory Overview
Hugh Patrick
1

CHAPTER TWO
Financial Reform in China
Progress and Challenges
Yiping Huang, Xun Wang, Bijun Wang, and Nian Lin
44

CHAPTER THREE
Japan
Edward J. Lincoln
143
CHAPTER FOUR
Yung Chul Park
225

CHAPTER FIVE
Banking, Capital Flows, and Financial Cycles
Common Threads in the 2007–2009 Crises
Young-Hwa Seok and Hyun Song Shin
302

Index
347
THE CENTRAL theme of this book is in what ways, and to what degree, the financial system has mattered, and what roles it has played in the Japanese economy since about 1990, in the Korean economy since about 1980, and in the Chinese economy since its reform process began in 1978.

The purpose is to make definitive contributions to the financial histories of these countries available to a wide audience. Thus, the rigorous analysis essential for economists and financial specialists is written to be readily accessible to the nonspecialist curious about what are fascinating stories.

While these three economies are at different stages of development—and have distinct histories, institutions, political systems, and societal characteristics—their economies share basic commonalities in rapid catch-up development and in economic structure. Moreover, while financial development in each country has been driven by domestic forces, international short-term financial flows have been an opportunity and a challenge.

For all three countries, the nature and role of the financial system and its development and evolution in the process of real economic growth are integral, yet complex and nuanced. The result is a fascinating spectrum of experiences, and Japan’s mediocre economic performance since 1990 relative to its potential provides a case study of the challenges of dealing with economic success as a mature, high-income advanced economy. The transition from an investment-led to a consumption-led growth model is not easy.