

# Acknowledgments

THIS BOOK is the product of an international collaborative project initiated and organized by professors Yung Chul Park of Korea University and Hugh Patrick of Columbia Business School. Neither of us would have attempted the project without the other. We had learned how to work together through our experience some years ago in organizing a similar project, the fruits of which were published in *The Financial Development of Japan, Korea and Taiwan: Growth, Repression and Liberalization* (Oxford University Press 1994).

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We all agreed it would be most productive to leave the determination of the major themes in each country chapter to the authors as experts. We further decided that each country chapter should be both comprehensive and detailed, with no particular limit on length, in order to provide the most thorough and updated analysis of the ongoing financial development. Preliminary drafts of the chapters were presented at a conference in Seoul in December 2010. The authors held a follow-up meeting at Columbia University in August 2011 to review the revised drafts before final, substantive revising and editing in spring and summer 2012.

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Hugh Patrick

How Finance Is Shaping the Economies  
of China, Japan, and Korea



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## CHAPTER ONE

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# An Introductory Overview

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THE ECONOMIC and financial systems of Japan, Korea, and China represent outstanding examples of very successful catch-up economic development and growth, major financial development, and gradual financial liberalization of initially highly repressed financial systems in an increasingly open global financial system. These are major achievements both for their citizens and for the world.

This book provides an analysis of that financial development process and how it has intertwined with the process of real economic growth in complex and nuanced, as well as obvious, ways.

The central theme is what role the financial system has played. That is, in what ways, and to what degree, has finance mattered? Each country is at a different stage of economic and financial development and has its own historical context. Nonetheless, the answers for each country have important similarities, as well as significant differences.

Three general implications for financial development can be derived from the experiences of these three countries:

First, financial development improves a country's resource allocation, but financial liberalization and increased financial intermediation