Global Interdependence, Decoupling and Recoupling. YIN-WONG CHEUNG AND FRANK WESTERMANN (EDITORS). Cambridge, MA: The MIT Press, 2013. Pp. vi, 308. $ 35.00

This tome is a collection of essays looking at the extent to which economies are "coupled" in the sense of having simultaneous (synchronized) business cycles, and why some countries differ from such (or are "decoupled"). Although the articles were initially presented at a 2011 Italian conference, several insights are useful now, especially with the Greek crisis at the time of this review's Summer 2015 writing. Cheung is at the City University of Hong Kong, while Westermann is at the University of Osnabrueck (Germany).

After the editors summarize the book's contents (Chapter 1), Lombardi et al. discuss several issues in tracking international business cycles. The researchers use a "vector error correction model" and monthly industrial production indexes for the United States, the euro area, and Japan for the 1980-2010 period to assess coupling among the three economies. They concluded that United States recessions had the most impact on the three, with United States recoveries less so because of different fiscal and monetary policy responses in the respective nations.

Cubadda et al. in Chapter 3 examine if within the European Union (EU) business cycle "synchronicity" has emerged. Looking 24 EU member states over the 1999-2011 period and their respective real GDP growth rates, the authors specify a VAR-type model. They determined that ten of the EU states had a common cycle. Another ten countries had cycles that moved with a lag to the former group. Finally, four countries – including Britain – had "idiosyncratic" cycles apart from the others.

Siklos in Chapter 4 divides the world into the United States, China, Japan, and six regional groups (including one for the EU). Using 1980-2010 panel data and a quantile regression model, he concludes that real GDP growth rates have become more synchronous over time, but that shocks can create short term "interruptions." Inflation-targeting monetary policies in many countries have abetted this apparent coupling. Siklos notes that China and the Central and East European countries were not as impacted by the 2008 financial crisis as were other nations.

Hirata et al. in Chapter 5 also take a world-wide perspective, but ask whether regionalization has had a greater impact than globalization on business cycles. They group 106 countries into seven geographic regions (with NAFTA being one of the seven). They then decompose fluctuations in real GDP into a global factor, a regional factor, a country-specific factor, and a residual factor, using 1960-2010 data. Specifying and estimating a dynamic factor model, the economists conclude that the global factor, while important, has diminished over time, and the regional factor has gained in influence. The latter appears to have appeared because of growing intraregional trade (say through trade agreements like NAFTA and the EU), as well as growing regional financial linkages. Furthermore, the global factor is more significant in explaining business cycles in North America and Europe than elsewhere. Country-specific events are less important, the more "open" an economy is; however, the country-specific factor is the most important of the four for most nations.

Lugauer and Mark look at household saving in China. Based on other studies, the two authors argue that China's rapid economic growth has been due primarily to investment rather than exports. In turn, China's high saving rate has helped it finance its domestic investment spending. Using Chinese microdata, the researchers argue that cutbacks in government-guaranteed pensions and employment (as state owned enterprises were privatized) led to a rise in precautionary and retirement savings. Furthermore, China's one-child policy reduced family sizes, but also will create a higher dependency ratio as the number of retired relative to employed workers increases over time. They also compared saving behavior in China with saving behavior in the United States.

In Chapter 7, Pula and Peltonen examine South-South trade, focusing especially on Asia, noting that most South-South trade is intraregional trade in intermediate goods within "emerging" Asia. Using the Asian International Input-Output table, the economists determined the extent to which value added in emerging Asia depends on final demands in the United States, Japan and the EU (the G-3 countries). Looking at the 2000-2008 period, they conclude that G-3 final demand has had a declining impact on Asian value added; rather, Asian final demand is much more important. This suggests less "coupling" outside of Asia.

Chapter 8 by De La Cruz et al. examines the Mexican economy, looking at "vertical specialization" along supply chains. The paper provides a short history of the Maquiladora program (and the similar PITEX program). Using a Mexican input-output table, the authors estimate that average domestic value added in Mexican exports is around 30 percent. At the valued added low end are electronic goods, reflecting extensive imported components; automotive and clothing goods (among others) are in the middle; and oil and other mining products at the high end of value added.

Berger and Nitsch in Chapter 9 look at trade imbalances within the EU, especially before and after the introduction of the euro. Using data from 1948 to 2008 for 15 (eventual) EU nations, the economists determined that euro-area countries saw increases in trade imbalances with other euro-area nations. They note in particular that Greece and other "small" economies ran high imbalances. The authors state that not having floating exchange rates increases the time needed to adjust to external accounts, and forces those adjustments through price changes.

Dooley (in Chapter 10) and Goldberg (in Chapter 11) both wrote "think pieces." Dooley notes that the 2008 crisis did not reduce economic activity as much in emerging markets compared to developed nations' markets. Within the EU, he states that Germany's trade surplus was "offset" by deficits in the EU's "peripheral" countries, but these latter countries (presumably including Greece) will be unable to finance these external deficits much into the future. Goldberg looks at the future of the US dollar, arguing that its "international role" should not change much in coming years.

The final (twelfth) chapter by Fujii looks at the "Penn effect," the argument that countries with high per capita incomes have high price levels. Fujii discusses problems with data sets, noting recent revisions to World Bank data. Using 1975-2009 panel data, he finds evidence of the Penn effect. The effect is more pronounced for OECD lands than for others. Controlling for nontradables, openness and exchange rate regimes does not eliminate the Penn effect, although countries with "rigid" exchange rate regimes appear to have higher price levels.

In all, this book is a very informative read, especially in light of current (2015) issues in the EU. The articles are very much empirical rather than theoretical pieces, using both econometric as well as input-output analyses. Several articles will be of interest to those studying the impacts of supply chains, as well as those examining regionalization. While the articles have little to say about Africa or Latin America (other than Mexico), they do collectively highlight issues in Asia, North America and Europe. I would encourage regional and international economists, and also economic geographers to look at this book.

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