the US–Japan alliance does not necessarily contradict Japan's effort to keep and enhance its soft power globally. Of course, as indicated by the conclusion of this book, whether the US–Japan alliance projects its 'hard' or 'soft' aspects greatly depends on the security environment in the Asia–Pacific region for years to come, as well as the future orientation of the US security policy in this region.

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* The views expressed in this review are those of the author, and do not represent official viewpoints of the National Institute for Defense Studies or the Ministry of Defense, Japan.

Masuma Farooki and Raphael Kaplinsky, *The Impact of China on Global Commodity Prices: The Global Reshaping of the Resource Sector,* Abingdon: Routledge, 2012, 207 pp. ISBN-978-0-415-59789-0 (hardcover), ISBN-978-0-203-15591-2 (ebook)).

What is the impact of China on global commodity prices? In this book, Masuma Farooki and Raphael Kaplinsky attempt to answer this question. They use a rather dense presentation style, complete with 50 figures and 38 tables, to show that China's impact on commodity prices arises from a complex linkage between a set of factors including: 1) China's re-emergence as the world's largest economy; 2) China's commodity-intensive growth path; 3) China's growing impact on other economies; 4) the changing nature of commodity price movements; 5) the commodity's demand–supply fundamentals; 6) the financialization of commodity markets; and 7) the decisions of stakeholders who determine investment responses in commodity sectors.

Chapter 1 provides an introduction to China's comeback and views the country's economic performance as an 'economic miracle'. Chapter 2 examines the impact of China on the global economy and refers to China as a 'driver economy'. Chapter 3 focuses on the role of China in global commodity sectors and the importance of the commodity sectors in the overall economic strategy of many countries. Chapter 4 describes China as a driver of demand for commodities and analyzes the country's growth path in the context of its fast and sustained economic development. Chapter 5 identifies the determinants of the supply response to the rising demand in the commodity sectors. Chapter 6 sheds light on the impact of the financialization of commodity markets on the evolution of commodity prices, particularly since the 1990s. Chapter 7 investigates stakeholders' response to commodity (super-)cycles. Finally, Chapter 8 summarizes the overall impact of China on the global commodity sector.

China, together with India, is often referred to as the 'Asian driver' economy, which vigorously seeks to reshape the world economy to meet its needs. Coupled with China's growing integration with the global economy, this new period of Chinese rapid economic growth since the 1980s will have complex and major bearings on the global economy and individual countries. Unique to the country, the authors state that China's broader impact on the global economy is further driven by its size, the nature of its low-income market and the distinctive character of China's economic actors. China's population accounts for 20 per cent of the world's population. The country has become a significant exporter, particularly after 1985. In particular, since 2000, China's rapid entry into the global market has provided the scale and scope for Chinese firms to benefit from the economies of scale, to learn from meeting the needs of demanding buyers and customers, and to get access to modern technology and foreign investment. This gave rise to global demand for commodities.

In addition to the nature of markets, two sets of interrelated Chinese actors—the corporate sector and the state sector—play a key role in this development. There are two major ownership structures, namely state-owned enterprises (SOEs) and township and village enterprises (TVEs). The former dominate many sectors of the modern Chinese economy, whereas the latter are firms owned by more decentralized administrations within provinces. In this setting, business activities are chiefly based on networks, or 'guanxi', and their ownership structure is not based on free market principles, even though they react to market incentives. This is usually referred to as 'Chinese capitalism'. Furthermore, backed by more than US$2 trillion of foreign exchange reserves, the Chinese state has grown in confidence and is increasingly becoming a key participant in institutions of global governance, seeking a more independent voice from the OECD economies. This especially manifested itself during the Copenhagen Climate Change Conference in 2009 when China played an influential role in wrecking a multilateral agreement on carbon-reduction targets.

To elucidate the impact of China on the global economy, the authors further make distinctions between direct and indirect complementary and competitive impacts that are transmitted to other countries through a number of vectors of interaction with the global economy such as trade, foreign investment and financial flows. Direct complementary impacts result from China's bilateral interactions with other countries. For example, China provides a stream of low-price consumer goods, helping to control global inflation and to improve welfare. This is mainly the case with basic labour-intensive consumer products such as furniture, clothing and footwear. Furthermore, China provides much required investment and even technology to many low-income countries. Direct complementary impacts also reflect the country's internal needs. China has become a source of low-cost intermediate products that are assembled into final products for export to the global economy. Nevertheless, cheap imports from China have undermined industry-level activities as well as employment and domestic output in many other countries who import from China. China affects other countries also indirectly. For instance, China has limiting effects on the competitiveness of many low- and middle-income economies that try to increase their manufacturing exports to the United States. However, China's fast and sustained economic development spurs growth in other economies. Some resource-rich exporting countries for example, benefit from the widespread impact of China's growing demand on global commodity prices, even though they might not export to China directly. In addition, high savings rates in China have lowered global interest rates, and thus indirectly facilitated investment in other countries.

Given the significance of commodity sectors for many countries' overall economic strategies, the authors investigate whether China's recent growth has disrupted or reshaped the trajectory of prices at which commodities are traded in the global commodity markets. They observe that the terms of trade, reflecting the ratio of commodity prices to the price of manufactures, has begun to turn in favour of commodities. The price of manufactures increased during 1970–1992, but on average declined during 1992–2006. After 2006, the price of manufactures started to rise, but at a slower pace than during the 1970s and the 1980s. On the other hand, unlike the short-lived commodity price spikes of the 1950s and the 1970s, when commodity prices rapidly fell back to the pre-boom levels or even lower, soon after the millennium commodity prices began to rise again, initially slowly and then after 2004 very rapidly.

The authors argue that the commodity price boom after 2001 does not fit into the pattern of the twentieth century's price-cycle, which stemmed from a combination of interruptions to supply and the expectations of rapid growth in demand. The authors refer to the recent trend as a 'super-cycle' due to the longer duration of this type of price boom. They argue that this type is bred by the particular path of China's economy, which is currently the world's second largest economy and is likely to become the world's largest economy within two to three decades. China's relatively early stage of commodity-intensive growth, its specialization in manufacturing and scale of investment in construction and infrastructure, and the country's rising share of global production and consumption of commodities after 2002, are some of the other reasons why China's resource hunger is unlikely to diminish soon. Consequently, China will continue to give rise to the global demand for commodities due to its 'growth effect', reflecting the country's rapid sustained economic growth, and its 'consumption effect', indicating its increased demand for commodities and its expanding need for imported inputs.

The authors, however, attempt to explain that prices are not just a function of the fundamentals of supply and demand, but also are a function of expectations and the financialization of commodities over the past two decades. Unlike the traditional traders who purchase and stock commodities to meet the needs of the productive sector, the new entrants to the commodity markets seek their return from three sets of investment activity: 1) betting on future prices; 2) making investment to gain from arbitrage, that is, the difference in prices between different markets at the same time; and 3) investment for risk diversification. The new long-term traders are driven by risk diversification motives and return on assets over the medium and long term. This group's impact on the prices of commodities is likely to be positive as they contribute to a price level greater than that required to balance supply and demand in the long term. Because of the stickiness of their investment, nevertheless, this group may present a stabilizing impact on commodity prices and lower volatility. The short-term investors, usually hedge funds and the floor traders, are speculative investors and seek to gain from arbitrage and from bets against the market. Thus, they are likely to contribute to the growing volatility of prices. At large, although with complex impact, the financial actors in commodity markets are likely to give rise to even higher levels of prices than required to draw investments into new productive capacity. For instance, the financialization of commodity markets inflated the upswing in prices in 2006–2008 and the downswing in prices after the financial crisis of 2008.

Moreover, the authors shed light on the crucial role of stakeholders, namely governments and private enterprises, in affecting demand and supply elasticity for most commodities. Distinguishing between three types of commodities, namely soft, hard and energy sectors, the authors argue that governments continue to play a major and resource-allocative role, mainly in the energy sector where, for instance, national oil companies are growing in power. In this sector, investment is chiefly driven by strategic considerations. Also, governments often regulate the regime governing both consumption and production of the soft commodity sector. However, mostly in the hard commodity sector and more recently to some extent in the soft commodity sector, investment is mainly determined by private rates of return. This, in return, limits the rapid supply response to the increasing demand. In this picture, the authors state that the re-emergence of China affects not only the global demand for, but also the global supply of commodities. This is because although China is already a key producer of many of the commodities, the widening gap between its supply and its increasing demand, has forced the country to search for resources abroad. This search is not restricted to the country's growing imports, but also stems from the Chinese firms' ability to invest in the resource sector of foreign countries, backed by China's substantial foreign exchange reserves.

On the whole, this book presents a balanced analysis of the complexity of China's impact on global commodity prices. In the context of the reshaping of global commodity prices, this book illustrates that not only the level of aggregate demand and supply matters, but also the changing character of the market. Although this book does not provide quantitative predictions about the evolution of future commodity prices, it offers insightful explanations for why commodity prices are expected to rise for years to come.

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