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# BOOK REVIEWS

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***Asian Capital Market Development and Integration: Challenges and Opportunities.* Edited by the Asian Development Bank and Korea Capital Market Institute.** New Delhi: Oxford University Press, 2014. Pp. 530.

This edited book focuses on capital market development and integration in Asia. It provides a timely reflection of how the region's capital markets have developed since the 1997–98 Asian Financial Crisis. The book is also significant, as the 2008–09 Global Financial Crisis and the policy response thereon from the developed countries, have increased capital flows to the region in search of yield. As highlighted in several chapters, such flows could pose systemic and contagion risks.

The chapters in the book are well written, clear and concise. Chapters 1 (Gagnon) and 2 (Aziz) provide a good overview of the key issues at stake and how they relate to the past. In coping with significant capital outflows, Aziz argues that the Chiang Mai Initiative Multilateralization is unlikely to provide sufficient safety. Hence, the focus of policy-makers should be on strengthening capital markets. However, this suggestion is inconsistent with what Chapter 4 (Jeanne) argues for, which is that capital controls could be a solution. The reason is that the strengthening of capital markets require depth in liquidity and breadth in the number of players. The possibility of introducing capital controls is likely to deter the development of capital markets because some foreign capital providers might opt to stay out of the region as the chance of capital controls imposition is real.

The book also offers some interesting findings. For example, Chapter 5 (Jeanne, Noland, Subramanian and Williamson) finds that financial globalization has not really affected global growth positively. Indeed, external bank financing in Asia had a negative impact on long-run growth in nearly a quarter of all cases. This finding impugns many mainstream ideas that increasing the pool of capital for domestic users is beneficial. This leads one to wonder if a relationship with Chapter 7's (Véron) findings exist here, which is that whilst Asia's relative share of the global financial system has grown, its representation in the leadership of global financial standard-setting bodies has not increased correspondingly.

Chapter 8 (Liu and Moshirian) decomposes volatility in Asian equity markets. As expected, it revealed that the greater the degree of openness of the home country, the greater the magnitude of the spillover. The authors argue for a rigorous risk-pricing framework, such that correctly priced volatility should be good for resource allocation and not perceived as a malaise by policymakers. Indeed, policy intervention would be counterproductive. Chapters 9 (Park), 10 (Baek and Kim) and 11 (Hyun and Inukai) discuss the development of the Asian bond market and its relation to the post-1997 accumulation of foreign exchange reserves. It also explores the issues of the currency denomination of bonds and currency convertibility.

The subsequent section of the book focuses on Asia's demand for and supply of capital. Chapter 13 (Subramaniam and Legal) discusses the savings shortfall in some Asian countries and how this could be addressed with capital markets. This idea links well with the estimation done in Chapter 14 (Binh and Park) that examines the degree to which merging Asia's currently fragmented markets into a single larger pool would be an efficient course of action. This will, of course, have implications on the current practice of allocating part of Asia's considerable savings in European and North American markets. Chapter 13 also discusses the execution aspect of infrastructure development and touched on the importance of good governance in deploying capital to socially beneficial projects.

The book could be more comprehensive if it included chapters on the following topics. Firstly, it should have included a study on the state's role in capital markets, beyond regulation and surveillance. Indeed, in certain countries, the state has great influence through government-linked investment institutions, sovereign wealth funds and via significant or controlling shares in major companies. Besides this, there could be a discussion on the role of the state in drafting the framework and incentivising the development of niche capital market areas, such as in the offshore yuan business (in Hong Kong and Singapore) and the Sukuk market (in Malaysia); and how this relates to the capital markets in Asia.

Secondly, there is minimal discussion on the role of information in the development of capital markets in Asia. Whilst Chapter 8 discusses some related issues — such as the improvements to accounting standards and the convergence of the shadow banking system to global standards — there is little discussion on illegal insider trading, where individuals in possession of market sensitive information front-run other market participants to extract illicit profits. This type of behaviour deters the participation of retail investors, stymies the development of capital markets and introduces various hidden costs, such as wider spreads and higher capital costs.

Thirdly, the book should expand its scope to evaluate the role of capital markets in funding small and medium-sized enterprises in Asia — the backbone of many Asian economies. This evaluation could also examine how capital markets can help these companies grow. There could potentially be some discussion on whether the policies and mechanisms adopted to date have served (or not) their intended objectives. Indeed, the recent listing of Alibaba in the United States might demonstrate the inadequacy of Asian markets and relate to the issues Chapter 14 touches upon. Additionally, the book would have benefited from surveys on the role of pseudo-capital market in the form of Internet based crowdfunding platforms.

Overall, the book provides a comprehensive understanding of how Asian capital markets have developed since 1997. It covers the main aspects of capital markets, such as debt, equity, interest rates and capital flows. The book also presents the challenges Asia faces within a globalized world, and the many dilemmas policy-makers face in tackling issues of external origin that require balancing with domestic needs.

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***Energy Market Integration in East Asia: Schumpeterian Analysis of Economic Catch-up: Knowledge, Path-Creation, and the Middle-Income Trap.*** **By Keun Lee.** Cambridge: Cambridge University Press, 2013. Pp. 294.

The "middle-income trap" continues to fascinate scholars and policy-makers in Southeast Asia. Generally, it refers to a situation where countries are "trapped" at the middle-income level, facing difficulties in developing into high-income economies. Thus far, the usual suspects for the middle-income trap — identified from endogenous growth models — include the lack of human capital and technological innovation. The policy prescriptions are usually mundane — improve the quality of human capital and increase research and development (R&D) expenditures. Somehow, one feels that such policy recommendations are too generic. Despite this knowledge about the drivers