BOOK REVIEW


The most profound socio-economic change occurring in the last decade of the twentieth century has been the transition of countries with centrally-planned economies towards a market-based system, which affects about one-third of the world’s population. In Southeast Asia, three Indochinese countries, namely Cambodia, Lao People’s Democratic Republic (Lao PDR), and Vietnam, have embarked on the transition since the late 1980s. While literature about the transition in Russia, China, and Eastern Europe has proliferated, studies of the parallel process in these three Indochinese countries have been relatively limited. This volume is one of the few recent contributions to this front.

The book is a collection of papers initially presented in a dialogue among government participants at Hua Hin, Thailand on 23–26 August 1993. The academics and practitioners who prepared the papers intended to provide background information as well as theoretical and empirical support to the dialogue participants. The focus of the book is on macroeconomic management, which is crucial to the success of the transition. Economic liberalization through opening trade and market opportunities must be safeguarded by efforts to maintain macroeconomic stability by reducing inflation and practising fiscal discipline. Most transitional economies have, however, failed to maintain macroeconomic stability and promote output growth during microeconomic liberalization. Since the onset of the transition, they have experienced sharp output declines and macroeconomic collapse in the forms of galloping inflation, deteriorating balance of payment, and mass unemployment. The exceptions are a few Asian transitional economies, including China, Vietnam, Cambodia, and Lao PDR. Their reforms have rejected the thesis that those macroeconomic woes are necessary costs of the transition. In the literature of economic transition, the Chinese deeds of generating spectacular economic growth in a piecemeal and phased transition have so far stolen the limelight. This book emerges as a timely, well-informed analysis on the equally interesting experiences of the three Southeast Asian countries in pro-growth transition.

From the outset, the authors of the book correctly identify the transition approach in these three economies as mainly a gradual one, with piecemeal and phased reforms, in contrast to the rapid, all-out programme (or the “big-bang”/“shock-therapy” approach) practised in Russia and some East European countries. While reforms in the three economies included strong measures such as Vietnam’s drastic devaluation in 1991, the overall approach has been a step-by-step one. The authorities looked upon the reform effort as a continuing process and deemed their strong measures of price adjustment as partial responses along with other policies. The sequence was unplanned and can be better understood as a locus of pragmatic choices, rather than a technical choice.
between “shock therapy” and a gradual reform. Based on this observation, the authors take the position that the relatively successful transition in the three Southeast Asian countries is mainly a result of government policy and reform sequencing. There are nevertheless important contextual factors, such as a more extensive rural-agricultural base and a less-developed urban-industrial sector, the substantial continuity in political systems, and the geographical adjacency to a fast growing economic region. These situational advantages, however, could have been squandered by wrong policies or could have threatened the success of the reform. Therefore there are valuable lessons to be learnt in the three Southeast Asian countries’ transition experience.

The papers in this volume focused on the two critical elements in the early stage of a transition effort: inflation management and savings mobilization. A notable feature of the book is its inclusion of papers that analyse similar issues in the neighbouring, but heretofore market, economies of Indonesia, the Philippines, and Thailand. The aim is to illuminate the affinities and differences in policy responses to the same macroeconomic challenges. Such a mirror to the experiences of the three Indochinese countries could help the reader identify the unique economic and political factors in these transitional economies. In addition, one paper deals with the Indochinese countries’ membership in ASEAN and their roles in regional economic co-operation. The papers in the volume recorded the substantial experience of the three economies in the use of market instruments such as interest and exchange rate setting, control of fiscal deficits, and money creation. Without undermining real growth, these countries all managed to bring inflation under control, unify the official and unofficial domestic markets for goods, and expand international trade.

What is interesting are the practices dubbed by the authors as “unorthodox” strategies or “second-best solutions” better than “big-bang” alternatives. For instance, in enterprise reforms, the “distinctive elements are not so much at the readily observable level of legal and administrative strategies as at the more relevant, but less readily observable, level of enterprise response”. Instead of adopting an all-out privatization programme for their publicly owned enterprises, these economies provoked the growth of the market-oriented sectors through a process of dismantling prohibitions against private transactions. Although an appropriate and stable legal and administrative framework for a market economy based on private property rights is far from fully developed, these reforms have effectively changed the way public and private enterprises respond to market stimuli. They also safeguarded output from the existing enterprises and provided incentives for new enterprises and reforming enterprises to invest and increase their output. The experience suggests that the full transfer of property rights over economic activities was not required before competitive behaviour came into play.

Another good example is the three economies’ implicit acceptance of a dual (or even triple, in the Lao case) currency system. Their tolerance in allowing holding and circulation of foreign currencies worked well to provide a good monetary basis for the development of market transactions even in the context of a high degree of instability in the domestic monetary situation. This unorthodox strategy effectively facilitated the movements towards uniform exchange rates and currency convertibility and boosted trade with the outside world at realistic prices.

Compared with its analyses on inflation control, the book is relatively weak in its discussion of savings mobilization, which has no data on domestic saving rates and their changing trends. Neither do the three papers on the issue appear to be presented in a consistent analytical framework.

On the whole, this book has valuable information on some interesting aspects of the transition experience in Indochinese countries up to 1993. It is a succinct summary of the three economies’ relatively successful transition and macroeconomic management that generated a self-reinforcing cycle of positive economic growth and market-oriented reforms.

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