

Indonesia merits two chapters, (Chapter 6 specifically on the People's Credit Bank and Chapter 11 on historical trial-and-error evolution of MFIs in the twentieth century). Without state intervention, village credit since the 1980s had mass outreach with institutional innovations along the way as the consequence of Indonesian MFIs' evolution. Similar failure before success is witnessed in the Philippines in Chapter 7 where state agricultural subsidies to one-third of rural cooperative banks had to close because of loan arrears in the 1980s before a new era of Grameen-like MFIs by the non-profit NGO, Centre for Agriculture and Rural Development. These case-studies show that it is not so much as usury is eliminated, but high transaction costs are with more down-to-earth, figuratively and literally NGOs with a compassionate cause for the poor. In the end, NGOs seem more effective and efficient than state entities, but all are susceptible to corruption when corporate social responsibility wears thin.

The same sentiment prevails in Thai NGOs as critical historically as the change agent in socio-financial networks in the post-Asian financial crisis. Chapter 8 has theory meet up with rural Thai empirical evidence applied to group lending. Three conclusions as lessons include risk-averse selection attracts risky borrowers and scare of the safer ones; tapping social capital of other groups as inimical to these groups, not to their own groups; but in turn affect MFI effectiveness as correlated risks of groups in similar roles if all default simultaneously. In contrast, Chapter 9 for Malaysian aborigines offered by Christian NGO philanthropic aid creates new social roles for the recipients.

Chapter 10 is also group-based for inaccessible northeast Thai maize farmers locked in a vicious debt-dependent circle by middlemen money-lenders in commercial farming without savings. Three projects under the United Nations Development Programme in Burma in Chapter 12 face inhospitable soil and inflationary conditions as badly as a hostile policy regime. For all seven Southeast Asian economies covered, the emerging conclusions include widespread if not dominant MFIs with institutional simplicity and highly

selective criteria, but repeated lending to imply inability to save or repay loans. Commercialized MFIs under-serve the extremely poor as they are geared more towards the richer (Chapters 7 and 11). External help (Chapters 9 and 11), state or donor (Chapter 12) remains for the very poor who are also geographically isolated. Even potential commercial markets (Chapters 4 and 10) still depend on lower transaction costs of informal MFIs.

As traditional rotating credit pools with inflexible timing and size or unreliability are re-engineered into productive financial innovations, the cautionary note for Southeast Asia is to have socio-cultural values to help avert financial weapons of mass destruction as those in the U.S. subprime mortgage case. Lessons from the Asian financial crisis remains valid. Corporate governance and corporate social responsibility with state regulation and oversight are imperative while not compromising simple interface and access for the less literate and sophisticated rural clients. As rich as the volume is in spanning Southeast Asian geography and time-spans, it is unsurprising that there is no unique one-size-fits-all model though nuanced lessons for critical success factors are aplenty.

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Exchange Rates, Currency Crisis and Monetary Cooperation in Asia. By Ramkishan S. Rajan.
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In many respects, the Asian crisis of the late 1990s acted as a very important circuit-breaker in the areas relating to the policies of international macroeconomics and finance. We saw large, persistent and (as it turned out) unsustainable

flows of foreign capital into the region during the years leading up to the crisis. This, and the associated increase in the mobility of capital being processed by the structures, institutions and governance landscapes of the time, arguably made the international financial system vulnerable.

This volume by Ramkishan Rajan and co-authors frames the debate essentially around these vulnerabilities. The first part of the book — generally encompassing Part 1 — and Chapters 4 and 5 in the second part are devoted to something of an examination of these vulnerabilities. The latter sections of the book present an assessment of what can be done; and indeed what has been done to date to mitigate against the incurrence of such vulnerabilities in the future.

What are these vulnerabilities? There are several and there is a large and diverse literature detailing how the crisis came about, what the problems were and how policy-makers might go about fixing them. In my view, the volume covers the following three to various degrees:

The first relates to exchange rate regime choice and, in particular, the set of intermediate exchange rate regimes employed in the region prior to the crisis. It is widely acknowledged that most countries — especially those ultimately most affected — had employed soft pegs to their exchange rates. The prevailing literature at the time had warned against these regimes, arguing that they are inherently crisis-prone. The reason for this is that, under this regime choice, central banks were either unable or unwilling to defend their peg in the face of a speculative attack on the currency. Much of the policy debate after the crisis centred on the so-called bi-polar view, which suggested that exchange rate regimes are better off (in the sense that they can best withstand attack) if they are either fully fixed (for example, a currency board or dollarization), or fully floating (e.g., an inflation target).

Chapter 1 (with Alice Ouyang and Thomas Willett), Chapter 8 (with Jie Li) and Chapter 9 (with Reza Siregar and Graham Bird) also discuss an issue that is essentially a consequence of a fixed exchange rate; the accumulation of foreign reserves, the costs and benefits of this

accumulation and the subsequent sterilization of the monetary effects of the reserve inflow. In fact, a pleasing addition to the empirical literature on sterilization is the employment of a central bank loss function that provides explicitly for a pegged regime. In previous work, this was merely an assumption. Rajan (with Victor Pontines) takes up the issue of exchange rate regime directly in Chapter 11 with their discussion of the merits of an Asian Currency Unit. The authors wonder about the suitability of such an arrangement at this time. I believe this to be quite reasonable. The issue of fear of floating, arguably quite prevalent in the region, is not really ameliorated — while individual currency variation ceases, the common currency may well float, leaving trade and finance flows vulnerable. An associated change in institutional structures is also needed. Chapter 5 also discusses the role of the exchange rate regime as a crisis-mitigation tool, mainly from the perspective of reducing capital flight.

A second vulnerability relates to openness and the exposure of domestic economic conditions to foreign ones. Intuitively, more open economies tend to pass more of the effects of external conditions through to domestic conditions than less open economies. Indeed this has a bearing on the exchange rate regimes in the region, as mentioned above, and the desire to keep exchange rates managed to some extent (fear of floating). Chapters 2 and 3 (both with Amit Ghosh) deal with the issue of pass-through generally and also in the particular cases of Korea and Thailand and the chapters examine the effects of exchange rate changes to consumer prices and also import prices. It is found that pass-through is much higher for Thailand than for Korea both in static and time variant modes. This is not surprising as one would regard Thailand as more generally open. The discussion on production sharing is both useful and relevant in this region but does highlight the need for more simulation work to be performed on the effects of different policy regimes under production fragmentation.

Chapter 1 also deals with the issue of openness — this time openness to financial flows as the

chapter estimates the degree of *de facto* capital mobility through the offset equation. Predictably, it is found that mobility of capital dipped during the crisis period only to pick up again afterwards. Chapter 5 also deals with the issue of capital mobility but this time in terms of the extent to which capital leaves national borders in the wake of a financial crisis.

The third vulnerability relates to the composition of capital flows. It is generally acknowledged that foreign direct investment (FDI) inflows are safer in that FDIs, being less rapidly deployed into a particular country, are also slower and more costly to move out. As such, there is less likelihood of capital flight in the event of a crisis. This issue appears only fleetingly in the volume, with some discussion on the general topic of capital flows in Chapters 5 and 7 and also in Chapters 9 and 10.

In summary, the volume takes stock of and addresses some of the pertinent issues in international finance and crises in the Asian region. I have some sympathy for work of this type and accordingly believe in the importance of these issues and the public policy and governance implications that are required to solve them. The region's ability to remain relatively healthy after the global financial issues of three years ago suggests that much has been done by policy-makers to find solutions; the issues of global macroeconomic imbalances, especially regarding China, and the continual search for a mutually satisfactory exchange rate regime in Asia suggests that much more work needs to be done.

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