

BOOK REVIEWS

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***Emerging Asia: Essays on Crises, Capital Flows, FDI and Exchange Rates.* By Ramkishen S. Rajan.** London: Palgrave Macmillan, 2011. Pp. xiii, 175.

Rajan's book is true to its title: his primary foci are on FDI and exchange rates within the framework of financial and economic crises and the role played by capital flows in them. He sets the tone and direction of his volume by arguing that "Much of the prevailing discussion of the contemporary phenomena impacting the global economy is largely journalistic in nature, lacking any solid analysis or debate" (p. xii). He goes on: "Many scientific works are either narrow in their perspective or not easily comprehensible. This book therefore aims to discuss international economic issues in a straightforward manner that makes it intelligible to students of applied economics, public policy and international issues" (p. xii).

Rajan generally achieves his aims within the pages of five parts of his book that deal with (i) crisis, capital flows and exchange rates; (ii) exchange rate volatility, crisis and controls; (iii) global financial architecture; (iv) monetary and financial issues; and (v) foreign direct investment. While his focus is broadly on Asia, the book also contains a useful chapter on India that will particularly interest readers whose attention centres on that national economy.

The book begins by reminding readers that financial crises hit Asian economies hard during 1997–99 and then again in 2008–09 when they experienced severe capital shocks. The boom and bust cycles that Asian economies experienced were reflected in balance of payments capital account data that evidenced the persistent crises and recoveries. His balance of payments perspective set the stage for the author's focus on the roles that foreign direct investment (FDI) and exchange rate regimes played in the episodes of crises and recoveries.

The author's foci on foreign exchange markets, FDI and other balance of payments capital account financial flows provides readers with a fundamental linkage to the money and the real economies at national levels. This feature is one of the book's strengths. In addition, when he discusses foreign exchange markets two factors stand out—the maintenance of convertibility and the optimum mix of stability and flexibility (e.g., minimum volatility) and coordinating exchange rate and overall monetary policies within an economy.

Rajan is quick to point out that coordination does not imply straight-jacketing all Asian economies in a common exchange rate regime due to differences in monetary policy approaches and their connection to real economic activity; that is, the generation of income, output, employment and price levels. For example, "Rather than adopting a single currency immediately, East Asian economies might consider gradually moving

towards pegging to a currency basket, starting with individual currency weights and varying of extents of flexibility around the pegs, with a graduate convergence of time.” (p. 25).

The author “pegs” his discussion of exchange rate regimes to their potential impact on highly open real economies by noting that “given the heavy reliance of Asia on external trade, FDI and capital flows, the obvious desire by many Asian policy-makers is to minimize volatility in understandable” (p. 35). He further states that the link between “currency volatility, trade, investment and growth is not unambiguous” (p. 35).

The book’s focus on exchange rates almost inevitably leads to a discussion of the abstract idea and institutional reality of the Asian Currency Unit (ACU). Rajan reminds readers that “The ACU is a weighted average of regional currencies (and that) ... there are in fact at least three rationales for an ACU: as a unit of account, as a divergence indicator and for exchange rate stabilization” (p. 81). The author evaluates the three rationales and concludes that realistically the idea of an ACU should not be pushed too hard because “...neither the economic nor political preconditions exist for doing so ... (However) while the ACU cannot be viewed as an attractive nominal anchor for Asian currencies in the near term, it could have a role to play in Asian monetary and financial cooperation in the future” (p. 84).

On the crucial matter of FDI and the need for policies designed to attract it, Rajan makes five key points that are worthy of note. *First*, image-building is important and a positive image can be advanced by advertising, public relations events and positive news stories. *Second*, investor facilitation can be enhanced by providing useful information to potential investors, establishing and maintaining a strong and positive business climate, and by implementing a “one stop shopping” programme that assists investors over a broad range of business decisions ranging from site selection to infrastructure access. *Third*, targeting specific sectors in need of FDI and attracting specific investors from abroad and doing so by communicating with them directly via mail,

telephone and even forums and seminars can be useful. *Fourth*, advocating policies which support FDI and formulating those policies via creating task forces and conducting lobbying can be similarly useful. And *fifth*, economies in stronger macroeconomic situations can use fiscal and financial incentives wisely but this could turn out to be a very risky ploy for less well-advantaged and less well-managed economies. On this score, strong and well-managed Singapore “has provided subsidies to investors that go well beyond traditional tax measures and involve training (and) ... pricing of land and utilities” (p. 145).

Throughout his informative and thoughtful volume, the author presents readers with analytic discussions of key topics and with possible policy options related to them. However, he concludes by pointing out that there is no ideal *and* universal strategy when it comes to selecting policy options: “Indeed, one size cannot fit all countries at all times ... (particularly) in cases where administrative capacity is weak, government failure is pervasive and resources are scarce” (p. 154).

In summary, the volume rests on a foundation of extensive and high-quality research. It is well written, organized rationally and contains a wealth of bibliographical references and an array of pertinent empirical data. The book is for serious readers because working through its contents will require concentration and diligence. In the judgment of this reviewer, Rajan’s volume has earned its way into library holdings and course syllabi ranging from advanced courses in economics to finance to Asian studies.

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Investment Management (5th ed.). By Saw Swee-Hock. Singapore: Pearson, 2011. Pp. 320.

This book, which is in its fifth edition, will be indispensable for readers interested in enhancing their knowledge of investments in general and in