the rigorous exploration of Indonesia and Vietnam in the early part of the twentieth century.

At the deepest level, *Paths to Development in Asia* would work better as a book focussed exclusively on Indonesia and Vietnam. The arguments made by systematically — and chronologically — comparing the two cases throughout the book can then be extended to the other two countries in the concluding chapters. While more theoretically limited in scope — as it would allow fewer permutations to be tested — this would play to the author's strengths and be on surer footing.

In sum, this is a solid piece of scholarly work that makes an interesting contribution to aspects of the state-led development debate and makes a rare in-depth comparison between Indonesia and Vietnam's processes of state formation.

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***The Political Economy of Capital Market Reforms in Southeast Asia.* By Xiaoke Zhang.** New York: Palgrave Macmillan, 2011. Pp. 288.

The main argument of the book is that the structure of political parties in the three Southeast Asian countries of Singapore, Malaysia and Thailand determine the conceptualization and implementation of capital market reforms. The more concentrated the party structure and the greater the internal organizational strength of the party in power, the greater the probability that "public regarding" or public welfare enhancing policies will be implemented. The author then relates the successful capital market reforms and implementation of the reforms to the political party structure and the internal strength of the party. Using this conceptual model he argues that the Singapore government was more successful in implementing credible and effective capital market reforms that transformed Singapore into an international financial centre in comparison to Malaysia and Thailand. He also argues that Malaysia was more successful than Thailand in implementing capital market reforms because its political power structure was more stable than that of Thailand. Furthermore, only one dominant party in a coalition of parties had been in power in Malaysia whereas there has been tremendous political change in Thailand over the period of the study, that is, 1980 to the present.

The author also argues that external factors were not as important as internal factors in motivating capital market reforms in Singapore. He asserts that internal pressures of the electorate were more important "to the extent that the electorate as a whole preferred such public goods policies as capital market reforms, which stood to enhance social welfare, the government had a strong incentive to initiate and enact these policies" (p. 108, para. 1). He also argues that the "concentrated party system and the internal organizational strength of the PAP enabled the government to implement economic strategies for the long term public good, even if they harmed the interests of specific social groups and were unpopular in the short term" (p. 109).

However, in sharp contrast, Malaysia's capital market reforms were often subverted by rent-seeking behaviour by powerful interest groups within the dominant party structure. The author claims, "the public-regarding orientation of reforms that stemmed from party system concentration was significantly diluted by the rent-seeking behavior of politicians, which derived mainly from intra-UMNO organizational attributes" (p. 176). The author argues that efforts to liberalize the securities industry, make it more competitive, decontrol commission rates and improve capital adequacy of stock broking companies were compromised by powerful interest groups within the ruling UMNO party which had vested interests in securities companies and stock broking firms. It appears that UMNO preferred a gradual incremental approach to reforms rather than a "big bang" approach.

In Thailand, because of fragmented political power, vested interest groups were able to resist reforms and "private financiers constantly lobbied for the protection of their regulatory privileges and resisted competitive pressures associated with market liberalization…" (p. 145). The Thai government was unable, due to fragmented party structures, to make much progress in capital market liberalization by the mid-1990s. Although the number of members of the Stock Exchange of Thailand was increased, the new seats were captured by the cronies of the dominant politicians.

As a result of the more effective implementation of capital market reforms, Singapore ranked much higher than Malaysia and Thailand in terms of enforcement of securities and corporate governance rules, which include financial reporting standards, government efforts to improve securities laws, information disclosure, compliance with international best practices, the formation of independent board committees and minority shareholder protection (p. 130).

The author asserts that the three countries had made efforts to move from a bank-based economic system to a market-based economic system and hence the rationale for capital market reforms. In these efforts Singapore was more successful than the other two countries. However, little comparative data on the transition from a bank-based to a market-based economic structure is presented except to suggest that the annual average ratio of stock market capitalization to bank assets and the ratio of stock market trading to private credit by deposit money banks rose in Singapore between 1989 and 2007 (p. 130). However, there is some data to suggest that the capital market in Singapore became larger in the decade between 1998 and 2008 as the ratio of stock market capitalization to GDP averaged about 1.841 in Singapore; 1.447 in Malaysia and 0.517 in Thailand.

There are also more details and concrete examples of capital market reforms in Singapore than in Malaysia and Thailand. There is also no discussion in the Malaysian chapter on the formation and role of the Rating Agency of Malaysia and the Malaysian Rating Corporation although they played a crucial role in the process of developing the Private Debt Securities market and the capital market in Malaysia. More details on the demutualization of the Kuala Lumpur Stock Exchange or Bursa Malaysia and the transition from merit-based to disclosure-based listing may have provided more depth and reality to the analysis.

The author's thesis is that external factors are not as important as party concentration and internal party strength in implementing effective capital market reforms. He gives external factors a minor or non-existent role. However, in the case of Thailand he admits that there were pressures from the "World Bank and the IMF, and Western governments and financial firms that advocated capital market liberalization either for improving the prospect of economic development or for ensuring market access" (p. 137).

External factors also played a role in the initiation and implementation of capital market reforms in Malaysia. They did not only come from the international financial institutions but also the hedge funds, the World Trade Organization (WTO) and foreign governments that were forging the ideology of the "Washington Consensus" and the imperative to create market economies throughout the world. Malaysia was no exception as it was in one of the fastest growing regions and there were calls for the deeper integration of the Malaysian economy with the global economy. How Dr Mahathir and the UMNO elite mediated between foreign pressures and nationalistic pressures from within UMNO to generate and implement capital market reforms would have greatly added to the depth of the analysis.

The book provides new insights into the politics of the reform process in general and the capital market reforms in particular. The emphasis seems to be on the political parties and their internal strength in subduing vested and particularistic interests that may subvert the reform process to enrich themselves. It is perhaps one of the few books on this field in the Southeast Asian region. A broader theoretical framework incorporating external factors and institutions would have added to the depth of the analysis. More attention should also be placed on editing obvious errors such as “bank-of-payment” (p. 172) which should read as “balance of payments”.

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Exchange Rates and Foreign Direct Investment in Emerging Asia: Selected Issues and Policy Options. **By Ramkishen S. Rajan.** London and New York: Routledge, 2012. Pp. 215.

The author is no stranger to both themes of exchange rates and foreign direct investment (FDI) and is eminently qualified as an Asian expert. Many chapters in this book are revised versions of co-authored articles with globally affiliated colleagues, noted in the Acknowledgements (p. xxiv). Forewarned is forearmed for readers as the author is as mathematical and quantitatively inclined as any econometrician.

This two-part ten-chapter book is well supported by research and empirical evidence in statistics and figures. It is as elucidating as it is timely with the global financial crisis (GFC), rising China, India and the rest of Asia, in emphasis. Six chapters in Part 1 cover exchange rate regimes and policies, the rest in Part 2 on FDI in emerging Asia. Each chapter title is posed as a question with the “answers” and concluding remarks as highlights.

Chapter 1 is on Singapore and Taiwan as small, open economies in contemporary globalization, managing exchange rates and build-up of foreign exchange reserves (Figure 1.2, p. 4, pre-GFC). Their de facto sterilization and capital mobility policies are seemingly justifiable versus no sterilization in most monetary models on exchange rates and balance of payments (BOP). In contrast, Singapore and Hong Kong remain the most open (ratio of trade to gross domestic product) small city-states, but diametrically opposite in monetary exchange rate policies. Competitive, rivalrous, successful development models, all three are exemplary, enjoying BOP and foreign reserve surpluses.

Chapter 2 is on exchange rate pass-through (ERPT) transmission, appropriately shedding more light into the currencies of developing and emerging economies via changes from trade prices. In particular, pricing-to-market (PTM) elasticities for India’s top five export markets (the United States, China, United Arab Emirates, Singapore and Hong Kong (pp. 34–44) are estimated. Post-GFC, as more intra-Asian trade is needed, more research is urged as in “most of developing Asia, the literature supports incomplete ERPT” (p. 34), with ERPT highest for Thailand and Indonesia, but somewhat lower for Japan (p. 44).

Chapter 3 broadens the de facto exchange rate flexibility in strong evidence of heavy currency management in Bangladesh, India, Indonesia, Pakistan and Sri Lanka. With the rest in fixed U.S. dollar exchange rate regimes, India is a managed floater, joining other East Asian economies in building up reserves (Figure 3.1, p. 56) and leaning against the wind to manage global volatility. Decoupling or East-West as growth engines is controversial, East Asia’s currency undervaluation has lessons for South Asia in resource reallocation, fiscal consolidation and productivity of non-tradeable sectors. They impinge on domestic reforms, notably for India with poorer infrastructure to also heed the political economy of the U.S. branding China as a currency manipulator, as a start as of now.

Chapter 4 shows the vulnerability of shocks versus emerging Asia’s pre-GFC benefits as relatively open to global trade and FDI. Using the classic Swan framework (Figures 4.1–4.5, pp. 67–73), the author assesses policy responses with more questions posed for maintaining both internal and external balances. As post-GFC’s “new normal” possibly includes a lower standard of living for the United States and the European Union, short-term policy responses for interest rates and exchange rates to shocks are as hard for Asia. Nuances and idiosyncrasies mean no template “one-size-fits-all”. All suffer the socio-politics of jobs at risk. Consequently, domestic politics inevitably always prevail over any cooperative international political economy order for overall sustainability.